

**Avicanna Inc.**  
**Consolidated Financial Statements**  
**For the Years Ended December 31, 2022, and 2021**  
(Expressed in Canadian dollars)



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March 31, 2023  
Edmonton, Alberta

## **INDEPENDENT AUDITOR'S REPORT**

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To the Shareholders of Avicanna Inc.

### **Opinion**

We have audited the consolidated financial statements of Avicanna Inc. (the Company), which comprise the statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and the consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

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

### **Emphasis of Matter - Material Uncertainty Relating to Going Concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates the Company had an accumulated deficit of \$90,829,237, cash of \$1,194,040 and a working capital deficit of \$4,340,841 as at December 31, 2022. Additionally, the Company incurred a net loss after taxes of \$14,735,291 and used \$7,435,368 of cash for operating activities during the year ended December 31, 2022.

These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent Auditor's Report to the Shareholders of Avicanna Inc. *(continued)*

### ***Impairment of Inventory Held by the Colombian Entities***

#### ***Key Audit Matter Description***

As discussed in Notes 3, 6, and 9 to the consolidated financial statements, during the year ending December 31, 2022, the Company analyzed the fair value of the Colombian entities' inventory and recorded impairment charge to its inventory.

#### ***How the Key Audit Matter was Addressed in our Audit***

We identified the impairment of inventory held by the Colombian entities as a key audit matter as subjective auditor judgment was required to evaluate whether the inventory was properly valued and whether an impairment charge was necessary.

The following are the primary procedures we performed to address this key audit matter:

- Evaluated and discussed with management, their analysis over the valuation and accounting treatment over inventory held by the Colombian entities;
- Reviewed management's net realizable valuations of the inventory held by the Colombian entities;
- Obtained an understanding of management's knowledge, skill and ability to assess the net realizable value of inventory held by the Colombian entities;
- Challenged and assessed the reasonableness of assumptions used within the evaluation of such inventory;
- Analyzed management's 2023 sales forecast to determine if inventory is salable;
- Mathematically tested and reviewed the overall calculations; and
- Tested the design and implementation of management's controls surrounding management's valuation over the inventory activity.

### **Other Information**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, which includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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Independent Auditor's Report to the Shareholders of Avicanna Inc. *(continued)*

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

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

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

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

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

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

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Independent Auditor's Report to the Shareholders of Avicanna Inc. *(continued)*

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

The engagement partner on the audit resulting in this independent auditor's report is Justin Rousseau.

*Kingston Ross Pasmak LLP*

**Kingston Ross Pasmak LLP**

Chartered Professional Accountants

**Avicanna Inc.**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

	Note	December 31, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		1,194,040	31,004
Amounts receivable	4	2,149,371	2,335,828
Prepaid assets		480,978	901,292
Biological assets	5	129,824	1,083,447
Inventory	6	3,110,205	3,002,059
<b>Total current assets</b>		<b>7,064,418</b>	<b>7,353,630</b>
Right of use asset	10	369,827	147,192
Property and equipment	7, 9	10,017,358	14,321,597
Intangible assets	8, 9	167,628	299,195
Investment	12	-	180,000
<b>Total assets</b>		<b>\$ 17,619,231</b>	<b>\$ 22,301,614</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities		4,752,796	7,289,380
Lease liability – current portion	14	150,248	156,247
Loan payable – current portion	16	796,846	1,090,107
Convertible debentures	15	1,861,201	-
Derivative liability	17	972	-
Due to related party	18	3,843,196	3,659,931
<b>Total current liabilities</b>		<b>11,405,259</b>	<b>12,195,665</b>
Lease liability	14	221,873	-
Loan payable	16	179,551	415,826
Deferred revenue	13	2,353,897	2,782,101
<b>Total liabilities</b>		<b>14,160,580</b>	<b>15,393,592</b>
<b>Shareholders' Equity</b>			
Share capital	19	74,894,122	66,243,911
Warrants	19	11,714,410	9,621,935
Share-based payment reserve	20	6,808,009	6,847,200
Accumulated other comprehensive loss		(2,970,864)	(4,159,392)
Deficit		(90,829,237)	(77,407,467)
Equity attributable to owners of the parent		(383,560)	1,146,187
Non-controlling interest	21	3,842,211	5,761,835
<b>Total equity</b>		<b>3,458,651</b>	<b>6,908,022</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 17,619,231</b>	<b>\$ 22,301,614</b>

Nature of operations and going concern uncertainty – Note 1  
Subsequent events – Note 28

Approved by the Board

/s/ Dr. Chandra Panchal, Chairman of the Board of Directors

/s/ John McVicar, Audit Committee Chair, Director

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

**Avicanna Inc.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**For the Years Ended December 31, 2022, and 2021**  
**(Expressed in Canadian Dollars)**

	Notes	For the Year Ended December 31,	
		2022	2021
<b>Revenue</b>			
Service Revenue		\$ 120,631	\$ 87,945
License Revenue	13	1,106,120	403,000
Product Sales		2,821,130	2,777,961
<b>Total Revenue</b>		<b>4,047,881</b>	<b>3,268,906</b>
Cost of goods sold		(2,180,168)	(2,571,556)
<b>Gross margin before the undernoted</b>		<b>1,867,713</b>	<b>697,350</b>
Inventory (impairment) recovery	6	(2,405,388)	669,116
Fair value changes in biological assets included in inventory sold		(112,000)	(149,313)
Unrealized gain on changes in fair value of biological assets		1,765,016	1,614,667
<b>Gross margin</b>		<b>1,115,341</b>	<b>2,831,820</b>
<b>Expenses</b>			
General and administrative	23	9,220,310	11,869,833
Share-based compensation	20	1,042,566	1,312,768
Depreciation and amortization	7,8,10	887,332	893,987
Expected credit loss	4	375,553	168,641
Impairment of capital assets	9	1,118,467	4,160,727
<b>Total Expenses</b>		<b>(12,644,228)</b>	<b>(18,405,956)</b>
<b>Other income (expenses)</b>			
Foreign exchange loss		90,530	(77,419)
Gain on disposal of capital assets	7	7,585	51,975
Unrealized loss on investment	12	-	(338,213)
Gain (loss) on fair value of derivative liability	17	66,925	(138,904)
Loss on revaluation of derivative asset	11	-	(526,312)
Other income		(168,607)	580,292
Interest expense	14,15	(271,562)	(295,019)
Accretion of loans and convertible debentures	15,16	(1,400,281)	(443,037)
Loss on sale of Sativa Nativa S.A.S.	27	(1,530,994)	-
<b>Loss before taxes</b>		<b>\$ (14,735,291)</b>	<b>\$ (16,760,773)</b>
Deferred tax expense	24	-	(34,451)
Income tax recovery	24	-	20,684
<b>Net loss</b>		<b>(14,735,291)</b>	<b>(16,774,540)</b>
Exchange differences on translation of foreign operations		335,267	(2,774,963)
<b>Comprehensive loss</b>		<b>\$ (14,400,024)</b>	<b>\$ (19,549,503)</b>
Comprehensive loss attributable to non – controlling interest	21	(2,166,782)	(2,131,877)
Comprehensive loss attributable to Shareholders of the Company	21	(12,233,242)	(17,417,626)
		<b>\$ (14,400,024)</b>	<b>\$ (19,549,503)</b>
Weighted average number of common shares – basic and diluted		59,167,116	41,285,084
Comprehensive loss per share – basic and diluted		\$ (0.24)	\$ (0.47)

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

**Avicanna Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 2022, and 2021**  
**(Expressed in Canadian Dollars)**

		Common shares		Common shares to be Issued		Warrants	Share-based payment Reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	Note	#	\$	#	\$	\$	\$	\$	\$	\$	\$
<b>December 31, 2021</b>		<b>45,884,282</b>	<b>66,243,911</b>	-	-	<b>9,621,935</b>	<b>6,847,200</b>	<b>(77,407,467)</b>	<b>(4,159,392)</b>	<b>5,761,835</b>	<b>6,908,022</b>
Share based compensation	20	-	-	-	-	-	1,042,566	-	-	-	1,068,859
Settlement of RSUs	20	2,852,648	1,460,350	-	-	-	(1,081,757)	-	-	-	378,593
Issuance of units	19	26,215,870	7,189,861	-	-	1,886,220	-	-	-	-	9,076,081
Sale of Sativa Nativa S.A.S.	27	-	-	-	-	-	-	-	-	247,158	247,158
Warrants issued with debentures	15,19	-	-	-	-	206,255	-	-	-	-	206,255
Foreign exchange translation		-	-	-	-	-	-	-	1,188,528	(853,261)	335,267
Net loss		-	-	-	-	-	-	(13,421,770)	-	(1,313,521)	(14,735,291)
<b>December 31, 2022</b>		<b>74,952,800</b>	<b>74,894,122</b>	-	-	<b>11,714,410</b>	<b>6,808,009</b>	<b>(90,829,237)</b>	<b>(2,970,864)</b>	<b>3,842,211</b>	<b>3,458,651</b>
<b>December 31, 2020</b>		<b>35,871,941</b>	<b>57,355,314</b>	<b>101,722</b>	<b>113,526</b>	<b>6,780,037</b>	<b>5,916,475</b>	<b>(62,036,238)</b>	<b>(2,112,995)</b>	<b>7,893,712</b>	<b>13,909,830</b>
Settlement of shares to be issued	19	101,722	113,526	(101,722)	(113,526)	-	-	-	-	-	-
Share based compensation	20	-	-	-	-	-	1,312,768	-	-	-	1,312,768
Exercise of RSUs	20	130,467	361,827	-	-	-	(382,043)	-	-	-	(20,216)
Conversion of debentures	15	613,535	1,502,735	-	-	-	-	-	-	-	1,502,735
Exercise of warrants	19	99,595	124,883	-	-	(40,227)	-	-	-	-	84,656
Issuance of units	19	9,067,022	6,785,627	-	-	2,305,065	-	-	-	-	9,090,692
Warrants issued with term loan	16,19	-	-	-	-	577,060	-	-	-	-	577,060
Foreign exchange translation		-	-	-	-	-	-	-	(2,046,397)	(728,566)	(2,774,963)
Net loss		-	-	-	-	-	-	(15,371,229)	-	(1,403,311)	(16,774,540)
<b>December 31, 2021</b>		<b>45,884,282</b>	<b>66,243,911</b>	-	-	<b>9,621,935</b>	<b>6,847,200</b>	<b>(77,407,467)</b>	<b>(4,159,392)</b>	<b>5,761,835</b>	<b>6,908,022</b>

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



**Avicanna Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2022, and 2021**  
**(Expressed in Canadian Dollars)**

	Note	2022	2021
<b>For the Year Ended December 31,</b>			
<b>Cash flows from operating activities</b>			
Net loss		\$ (14,735,291)	\$ (16,774,540)
Depreciation and amortization	7,8,10	887,332	893,987
Interest on lease liability	14	17,330	21,486
Accretion of loans and convertible debentures	15,16	1,400,281	443,038
Share-based compensation	20	1,042,566	1,312,768
Loss on long-term investment	12	-	338,213
Loss (gain) on fair value of derivative liability	17	(66,925)	138,904
Loss on derivative asset	11	-	526,312
Deferred revenue incurred, net of recognized revenue	13	(428,204)	(478,000)
Expected credit losses	4	375,553	168,641
Future tax recovery	24	-	34,451
Impairment of capital assets	9	1,118,467	4,160,727
Gain on sale of capital assets	7	(7,585)	-
Loss on sale of Sativa Nativa S.A.S.	27	1,530,994	-
Changes in non-cash operating elements of working capital	26	1,430,114	(2,449,012)
<b>Cash used in operating activities</b>		<b>(7,435,368)</b>	<b>(11,663,025)</b>
<b>Cash flows from investing activities</b>			
Purchase of capital assets	7	(50,718)	(769,166)
Proceeds from disposal of capital assets	7	27,570	300,059
Purchase of intangible assets	8	(16,062)	(20,065)
Proceeds from sale of investments	12	180,000	1,250,000
Proceeds from sale of Sativa Nativa S.A.S.	27	669,446	-
<b>Cash provided by investing activities</b>		<b>810,236</b>	<b>760,828</b>
<b>Cash flows from financing activities</b>			
Payment of lease liability	14	(193,753)	(229,455)
Issuance of loans payable, net of costs	16	-	2,359,086
Proceeds from issuance of common shares, net of costs	19	9,076,081	9,090,692
Increase (decrease) in balance due to related party	18	760,795	(68,120)
Repayment of debentures	15	-	(600,000)
Repayment of loan payable	16	(1,214,875)	(576,843)
Issuance of debentures	15	1,473,237	-
Proceeds from exercise of warrants	19	-	84,656
<b>Cash provided by financing activities</b>		<b>9,901,485</b>	<b>10,060,016</b>
<b>Net increase (decrease) in cash</b>		<b>3,276,353</b>	<b>(842,181)</b>
Effect of foreign exchange differences		(2,113,317)	(393,547)
Cash, beginning of period		31,004	1,266,732
<b>Cash, end of period</b>		<b>\$ 1,194,040</b>	<b>\$ 31,004</b>

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

## **Avicanna Inc.**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

#### **1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

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

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

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

As of December 31, 2022, the Company has an accumulated deficit of \$90,829,237 (December 31, 2021 - \$77,407,467), cash of \$1,194,040 (December 31, 2021 – \$31,004), and a working capital deficit of \$4,340,841 (December 31, 2021 – deficit of \$4,842,035). Additionally, the Company incurred a net loss after taxes of \$14,735,291 and used \$7,435,368 of cash from operating activities during the year ended on December 31, 2022. In the prior year, the Company incurred a net loss of \$16,774,540 and used \$11,663,025 of cash from operating activities. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern.

#### **2. BASIS OF PRESENTATION**

##### **Statement of compliance**

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”). The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Company’s Board of Directors on March 29, 2023.

##### **Basis of presentation**

These consolidated financial statements have been prepared on a historical cost basis except for biological assets and derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. The Company operates in four business segments: three based on geographic region; North America, South America and Rest of World, and Corporate, which is comprised of costs which serve the Company’s global administrative responsibilities.

##### **Functional and presentation currency**

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

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

## 2. BASIS OF PRESENTATION (CONTINUED)

### Basis of consolidation

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

Subsidiaries	Jurisdiction of Incorporation	Ownership Interest	Functional currency
Avicanna (UK) Limited ("Avicanna UK")	United Kingdom	100%	British Pound Sterling
Avicanna USA Inc. ("Avicanna USA")	United States of America	100%	United States Dollar
2516167 Ontario Inc. ("My Cannabis")	Ontario, Canada	100%	Canadian Dollar
Sigma Magdalena Canada Inc.	Ontario, Canada	60%	Canadian Dollar
Sigma Analytical Magdalena S.A.S. ("Sigma Colombia")	Republic of Colombia	60%	Colombian Peso
Santa Marta Golden Hemp S.A.S. ("SMGH")	Republic of Colombia	60%	Colombian Peso
Sativa Nativa S.A.S. ("SN")	Republic of Colombia	0%*	Colombian Peso
Avicanna LATAM S.A.S. ("LATAM")	Republic of Colombia	100%	Colombian Peso

\*The Company disposed of SN on June 29, 2022. Prior to this, the Company held ownership of 63% (Note 27).

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

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

### Foreign currency transactions

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

### Foreign currency translation

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

### Use of judgments, estimates and assumptions

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

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

The following are the critical judgments and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated financial statements:

## **Avicanna Inc.**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

## **2. BASIS OF PRESENTATION (CONTINUED)**

### *Business combinations*

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

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

### *Biological assets and inventory*

In calculating the fair value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. Inventories of harvested cannabis are valued at the lower of cost or net realizable value. The Company estimates the net realizable value of inventories, considering the most reliable evidence available at the reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross profit.

### *Estimated useful life of long-lived assets*

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

### *Impairment of long-lived assets*

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

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

### *Fair value measurements*

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

## **Avicanna Inc.**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

## **2. BASIS OF PRESENTATION (CONTINUED)**

### *Functional currency*

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

### *Provisions*

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

### *Leases*

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

### *Income tax provisions*

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

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

### *Determination of share-based payments*

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

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Leases**

At the inception of a contract, the Company assesses if the agreement is or contains a lease arrangement. A lease arrangement exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and lease obligation with respect to all lease arrangements with a lease term greater than twelve months. Leases with a term of twelve months or less, variable rent expenses, or leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of net earnings when performance relating to those expenses has occurred. Low-value assets comprise primarily small equipment.

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Right-of-use Asset*

A right-of-use asset is measured at the amount of the initial lease obligation and adjusted for any lease payments made at or before the commencement date of the lease less any incentives, initial direct costs, or the estimate of costs to restore the right-of-use asset at the conclusion of the lease term. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term. If it is reasonably certain at the commencement of the lease arrangement that the Company will exercise its purchase option or otherwise obtain ownership of the underlying asset at the end of the lease term, the right-of-use asset is depreciated over the useful life of the underlying asset.

#### *Lease liability*

The Company measures its lease obligation as the present value of the outstanding lease payments, discounted using the interest rate implicit in the lease and the term of the contract adjusted for reasonably certain renewal or termination options. If the interest rate implicit in the lease is not readily available, the payments are discounted using the Company's incremental borrowing rate. The lease obligation is subsequently measured by increasing the carrying amount for interest using the effective interest method. Lease payments are recognized as reductions to the carrying amount of the lease obligation.

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

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

The Company remeasures the lease obligation and right-of-use asset as a result of material modifications to a lease arrangement.

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

#### **Revenue recognition**

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

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

Revenue from the sale of the Company's cannabis-based products is recognized when the Company transfers control of the goods to the customers. Control of the product transfers at a point in time either upon shipment to, or receipt by, the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive considering any variation that may result from rights of return.

The Company currently generates revenue from license, development, and royalties from its intellectual property. Revenue from license and royalties is recognized when the Company has fulfilled its duties under the terms of the specific license and royalty contracts, or when a related sale is completed by the licensees to their end customers.

Revenue from development projects is recognized when the Company has fulfilled its obligations under the specific agreements with customers. Consideration for development projects is collected at the commencement of the project and recorded into deferred revenue. Revenue is transferred to the consolidated statement of operations and comprehensive loss on a reasonable basis based on the terms of the agreement with the customer.

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and equipment

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

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

Construction-in-progress includes property and equipment not ready for use and is carried at cost less any recognized impairment charge. These assets are reclassified to the appropriate category of property and equipment and depreciation of these assets commences when they are completed and ready for their intended use.

For all property and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is calculated starting on the date that property and equipment is available for its intended use. For all other property and equipment, depreciation is calculated using a straight-line method based on the asset's useful life as presented below:

	<b>Estimated useful life (years)</b>
<b>Equipment</b>	
Computer	2-5
Machinery and Equipment	5-35
Vehicles	5-15
<b>Infrastructure and Buildings</b>	20-25

#### Intangible assets

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

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

	<b>Estimated useful life (years)</b>
Licenses and permits	20-25
E-commerce platform	5
Software licenses	2
Intellectual property	5
Customer relationships	5

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

## **Avicanna Inc.**

### **Notes to the Consolidated Financial Statements**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Impairment of long-lived assets**

Property and equipment are tested for impairment when events or changes in circumstances arise that indicate the carrying value may not be recoverable. Definite-lived intangible assets are assessed annually for indicators of impairment. If indicators exist, the asset will be tested for impairment by comparing the recoverable amount to the carrying value. Goodwill and indefinite-lived intangible assets are tested for impairment annually.

For the purposes of measuring recoverable amounts, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of cash inflows of other assets or groups of assets, referred to as a cash generating unit ("CGU"). The recoverable value of a CGU is the greater of its fair value less costs of disposal or value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the CGU. An impairment loss is recognized if the carrying amount of the CGU exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount.

#### **Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards which are accounted for in accordance with IAS 12 and IFRS 2, respectively. Acquisition costs are recognized in the consolidated statement of operations and comprehensive loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in profit or loss. Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

#### **Biological assets**

The Company's biological assets consist of cannabis plants which are not yet harvested. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Cost to sell includes post-harvest production, which include Active Pharmaceutical Ingredient ("API") extraction, shipping, and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations of the related reporting year.



## **Avicanna Inc.**

### **Notes to the Consolidated Financial Statements**

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(Expressed in Canadian dollars)

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Inventories**

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

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

Realized fair value amounts from biological assets included in the cost of inventory sold are separately presented for cost of sales as fair value changes in biological assets included in inventory sold.

#### **Income Taxes**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the assets to be recovered.

#### **Earnings per share**

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The dilutive effect on earnings per share is calculated presuming exercise of outstanding options, warrants, convertible debentures and similar instruments.

#### **Share-based compensation**

The Company has an omnibus long-term incentive plan which includes issuances of stock options and restricted share units in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company’s estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative reflects the revised estimate.

#### **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”).

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

<b>Financial Assets</b>	<b>Classification</b>
Cash	Amortized cost
Amounts receivable	Amortized cost
Investments	FVTPL
<b>Financial Liabilities</b>	<b>Classification</b>
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.

## **Avicanna Inc.**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### *(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.

#### **Convertible debentures**

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

#### **Derivative liability**

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

#### **Derivative asset**

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

#### **Long-term investments**

Long-term investments are initially recorded at cost, being the fair value at the time of acquisition. The investment is subsequently recorded at fair value with any unrealized gain or loss recognized on the consolidated statement of operations and comprehensive loss.

#### **Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction in equity. Proceeds received on the issuance of Equity Units, comprised of common shares and warrants, are allocated to common shares and warrants based on the residual method.

## **Avicanna Inc.**

### **Notes to the Consolidated Financial Statements**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Non-controlling interests**

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Corporation's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value of the consideration received or receivable, or at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the acquisition.

#### **Comprehensive income**

Comprehensive income is the change in the equity of the Company during a reporting period from transactions and other events and circumstances from non-shareholder sources. It includes all changes to equity during a period except those resulting from investments and distributions to shareholders. Comprehensive income is comprised of net income for the period and other comprehensive income. This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in "other comprehensive income" until it is considered appropriate to recognize in net income.

The Company's comprehensive income transactions include foreign currency translations recognized due to the consolidation of subsidiaries with a functional currency that differs from the presentation currency. This foreign exchange difference is recognized on the consolidated statements of operations and comprehensive loss, and the balance recorded in prior periods is accumulated on the consolidated statements of financial position.

#### **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### **New Accounting Policies**

*New accounting standards adopted in the current year*

#### **IAS 16, Property, Plant, and Equipment**

The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The amendment also clarifies the meaning of 'testing whether an asset is functioning properly'. The amendments were adopted on January 1, 2022. There has been no impact to the Company's property and equipment balance.

#### **IFRS 3, Reference to the Conceptual Framework**

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition after the beginning of the first annual period, begins on or after January 1, 2022. No significant impact to the Company's consolidated financial statements is expected.

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### IAS 37, Provisions, Contingent Liabilities, and Contingent Assets

The amendments update IAS 37 to clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all the costs that relate directly to the contract – i.e., a full-cost approach. Such costs include both the incremental costs of the contract (costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g., contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments were adopted on January 1, 2022. There has been no impact to the Company's consolidated financial statements.

*Future accounting standards not adopted in the current year*

#### IAS 1, Presentation of Financial Statements

On January 23, 2020, the International Accounting Standards Board ("IASB") issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. No significant impact to the Company's consolidated financial statements is expected.

#### IAS 12, Income Taxes

On May 7, 2021, the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023. No significant impact to the Company's financial statements is expected.

#### IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The amendments to IAS 8 are applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event, or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. The amendments effective for annual periods beginning on or after January 1, 2023, with early application permitted. No significant impact to the Company's consolidated financial statements is expected.

#### IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 to clarify that in a transaction involving an associate or joint venture, the extent or gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however early adoption is permitted.

### 4. AMOUNTS RECEIVABLE

	December 31, 2022		December 31, 2021	
Trade and other receivables	\$	2,121,619	\$	1,130,087
Sales tax receivable		783,634		2,088,844
Expected credit loss provision		(755,882)		(883,103)
<b>Total amounts receivable</b>	<b>\$</b>	<b>2,149,371</b>	<b>\$</b>	<b>2,335,828</b>

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

#### 5. BIOLOGICAL ASSETS

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

	December 31, 2022		December 31, 2021	
Opening balance	\$	1,083,448	\$	650,780
Production costs capitalized		428,775		501,975
Gain in fair value less costs to sell due to biological transformation		1,535,123		1,522,038
Transferred to inventory upon harvest		(2,798,963)		(1,498,034)
Foreign exchange translation		(118,559)		(93,312)
<b>Ending balance</b>	<b>\$</b>	<b>129,824</b>	<b>\$</b>	<b>1,083,447</b>

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

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

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

Assumptions: CBD Resin	As of December 31, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Resin Yield	-	-	8.8%	\$23,497
CBD Resin Price (USD/KG)	-	-	\$3,022	\$24,198
Weighted average of expected loss of plants until harvest [i]	-	-	3.5%	\$668
Expected yields for cannabis plants (average grams per plant)	-	-	145	\$18,276
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	74%	\$18,276
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	\$0.23	\$19,653
After harvest cost to complete and sell (per gram)	-	-	\$0.02	\$1,377

Assumptions: CBD Isolate	As of December 31, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Isolate Yield	4.3%	(\$6,915)	-	-
CBD Isolate Price (USD/KG)	\$1,615	(\$7,192)	-	-
Weighted average of expected loss of plants until harvest [i]	0.0%	\$856	-	-
Expected yields for cannabis plants (average grams per plant)	151	\$3,600	-	-
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	34.0%	\$3,600	-	-
Estimated fair value less costs to complete and sell (per gram) [ii]	(\$0.03)	\$2,061	-	-
After harvest cost to complete and sell (per gram)	\$0.05	\$1,539	-	-

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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#### 5. BIOLOGICAL ASSETS (CONTINUED)

Assumptions: THC Resin	As of December 31, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
THC Resin Yield	12.9%	\$31,051	12.6%	\$100,963
THC Resin Price (USD/KG)	\$5,189	\$246,876	\$5,129	\$102,689
Weighted average of expected loss of plants until harvest [i]	10.0%	\$15,717	6.7%	\$3,135
Expected yields for cannabis plants (average grams per plant)	151	\$30,853	145	\$90,078
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	56.0%	\$3,608	50%	\$90,078
Estimated fair value less costs to complete and sell (per gram) [ii]	\$0.95	\$31,051	\$0.65	\$94,325
After harvest cost to complete and sell (per gram)	\$0.01	\$17,032	\$0.04	\$4,247

  

Assumptions: CBD Seeds	As of December 31, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Seeds Price (USD/unit)	-	-	\$0.90	\$40,913
Weighted average of expected loss of plants until harvest [i]	-	-	10%	\$4,531
Expected yields for cannabis plants (average grams per plant)	-	-	3,000	\$40,783
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	45%	\$40,783
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	\$0.7	\$40,896
After harvest cost to complete and sell (per gram)	-	-	\$0.00	\$113

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

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

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

The Company estimates the harvest yields for cannabis at various stages of growth. As of December 31, 2022, it is expected that the Company's cannabis plants biological assets will yield approximately 2,378,005 grams of dry cannabis (December 31, 2021 – 4,022,145 grams) and nil seeds (December 31, 2021 – 942,300 seeds).

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

An unrealized gain on biological assets of \$1,765,016 was included in costs of goods sold for the year ended December 31, 2022 (December 31, 2021 - \$1,614,667).

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

#### 6. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
<b>Harvested Cannabis</b>				
Seeds	\$ 293,649	\$ -	\$ (293,649)	\$ -
Dried Flower	470,660	2,419,287	(2,288,174)	601,773
	<b>764,309</b>	<b>2,419,287</b>	<b>(2,581,823)</b>	<b>601,773</b>
<b>Active Pharmaceutical Ingredients</b>				
Work in process	515,681	716,997	(397,396)	835,282
Finished goods	86,719	73,380	(160,099)	-
	<b>602,400</b>	<b>790,377</b>	<b>(557,495)</b>	<b>835,282</b>
<b>Supplies and consumables</b>	<b>1,473,859</b>	-	<b>(366,055)</b>	<b>1,107,804</b>
<b>Finished goods</b>	<b>580,366</b>	-	<b>(15,020)</b>	<b>565,346</b>
<b>December 31, 2022</b>	<b>\$ 3,420,934</b>	<b>\$ 3,209,664</b>	<b>\$ (3,520,393)</b>	<b>\$ 3,110,205</b>

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
<b>Harvested Cannabis</b>				
Seeds	\$ 322,552	\$ -	\$ (339,072)	\$ (16,520)
Wet Flower	113,909	204,705	(33,940)	284,674
Dried Flower	232,181	680,139	(179,397)	732,923
	<b>668,642</b>	<b>884,844</b>	<b>(552,409)</b>	<b>1,001,077</b>
<b>Active Pharmaceutical Ingredients</b>				
Work in process	548,276	229,329	(407,163)	370,442
Finished goods	70,013	(51,633)	(18,380)	-
	<b>618,289</b>	<b>177,696</b>	<b>(425,543)</b>	<b>370,442</b>
<b>Supplies and consumables</b>	<b>1,420,053</b>	-	<b>(394,399)</b>	<b>1,025,654</b>
<b>Finished goods</b>	<b>688,221</b>	-	<b>(83,335)</b>	<b>604,886</b>
<b>December 31, 2021</b>	<b>\$ 3,395,205</b>	<b>\$ 1,062,540</b>	<b>\$ (1,455,686)</b>	<b>\$ 3,002,059</b>

The value of inventory transferred to cost of goods sold during the year ended December 31, 2022, was \$2,180,168 (December 31, 2021 - \$2,571,556). For the year ended December 31, 2022, the Company recognized inventory impairment of \$2,405,388 (December 31, 2021 – recovery of \$669,116).



## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

## 7. PROPERTY AND EQUIPMENT

	Equipment \$	Land \$	Construction in Progress \$	Infrastructure and Buildings \$	Total \$
<b>Cost</b>					
December 31, 2021	5,416,121	7,785,272	262,298	2,199,845	15,663,536
Additions	26,179	-	-	24,539	50,718
Disposals	(637,769)	(186,382)	(9,119)	(738,240)	(1,571,510)
Impairment	-	(1,118,467)	-	-	(1,118,467)
Foreign exchange translation	(452,932)	(789,350)	(72,505)	(154,442)	(1,469,229)
<b>December 31, 2022</b>	<b>4,351,599</b>	<b>5,691,073</b>	<b>180,674</b>	<b>1,331,702</b>	<b>11,555,048</b>
<b>Accumulated Depreciation</b>					
December 31, 2021	1,040,960	-	-	300,979	1,341,939
Depreciation	410,827	-	-	158,529	569,356
Disposals	(42,649)	-	-	(238,695)	(281,344)
Foreign exchange translation	(79,428)	-	-	(12,833)	(92,261)
<b>December 31, 2022</b>	<b>1,329,710</b>	<b>-</b>	<b>-</b>	<b>207,980</b>	<b>1,537,048</b>
<b>Net Book Value</b>					
December 31, 2021	4,375,491	7,785,272	262,298	1,898,866	14,321,597
<b>December 31, 2022</b>	<b>3,021,889</b>	<b>5,691,073</b>	<b>180,674</b>	<b>1,123,722</b>	<b>10,017,358</b>

  

	Equipment \$	Land \$	Construction in Progress \$	Infrastructure and Buildings \$	Total \$
<b>Cost</b>					
December 31, 2020	3,016,452	9,088,419	4,973,217	5,604,076	22,682,164
Additions	580,339	-	182,936	5,891	769,166
Disposals	(522,506)	-	(36,760)	-	(559,266)
Transfers	3,040,200	-	(2,560,949)	(479,251)	-
Impairment	-	-	(1,950,592)	(2,210,135)	(4,160,727)
Foreign exchange translation	(698,034)	(1,303,147)	(345,884)	(720,736)	(3,067,801)
<b>December 31, 2021</b>	<b>5,416,451</b>	<b>7,785,272</b>	<b>261,968</b>	<b>2,199,845</b>	<b>15,663,536</b>
<b>Accumulated Depreciation</b>					
December 31, 2020	992,635	-	-	224,330	1,216,965
Depreciation	377,980	-	-	111,789	489,769
Disposals	(259,207)	-	-	-	(259,207)
Foreign exchange translation	(70,448)	-	-	(35,140)	(105,588)
<b>December 31, 2021</b>	<b>1,040,960</b>	<b>-</b>	<b>-</b>	<b>300,979</b>	<b>1,341,939</b>
<b>Net Book Value</b>					
December 31, 2020	2,023,817	9,088,419	4,973,217	5,379,746	21,465,199
<b>December 31, 2021</b>	<b>4,375,491</b>	<b>7,785,272</b>	<b>261,968</b>	<b>1,989,866</b>	<b>14,321,597</b>

During the year ended December 31, 2022, the Company recognized depreciation expense on its property and equipment of \$569,356 (December 31, 2021 - \$489,769).

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2022, and 2021

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#### 8. INTANGIBLE ASSETS

	Customer Relationships \$	Ecommerce Platform \$	Licenses and Permits \$	Software Licenses \$	Intellectual Property \$	Total \$
<b>Cost</b>						
December 31, 2021	141,327	455,994	43,549	88,115	88,890	817,875
Additions	-	-	-	16,062	-	16,062
Foreign exchange translation	-	-	(4,766)	(10,642)	(8,727)	(24,135)
<b>December 31, 2022</b>	<b>141,327</b>	<b>455,994</b>	<b>38,783</b>	<b>93,535</b>	<b>80,163</b>	<b>809,802</b>
<b>Accumulated Amortization</b>						
December 31, 2021	124,878	194,700	38,215	77,886	83,001	518,680
Amortization	16,449	93,666	5,192	25,973	7,034	148,314
Foreign exchange translation	-	-	(4,624)	(10,324)	(9,872)	(24,820)
<b>December 31, 2022</b>	<b>141,327</b>	<b>288,366</b>	<b>38,783</b>	<b>93,535</b>	<b>80,163</b>	<b>642,174</b>
<b>Net Book Value</b>						
December 31, 2021	16,449	261,294	5,334	10,229	5,889	299,195
<b>December 31, 2022</b>	<b>-</b>	<b>167,628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>167,628</b>

	Customer Relationships \$	Ecommerce Platform \$	Licenses and Permits \$	Software Licenses \$	Intellectual Property \$	Total \$
<b>Cost</b>						
December 31, 2020	141,327	455,994	50,177	83,321	100,551	831,370
Additions	-	-	568	16,741	2,756	20,065
Foreign exchange translation	-	-	(7,196)	(11,947)	(14,417)	(33,560)
<b>December 31, 2021</b>	<b>141,327</b>	<b>455,994</b>	<b>43,549</b>	<b>88,115</b>	<b>88,890</b>	<b>817,875</b>
<b>Accumulated Amortization</b>						
December 31, 2020	96,613	103,501	17,860	38,669	77,259	333,902
Amortization	28,265	91,199	24,157	46,606	17,731	207,958
Foreign exchange translation	-	-	(3,802)	(7,389)	(11,989)	(23,180)
<b>December 31, 2021</b>	<b>124,878</b>	<b>194,700</b>	<b>38,215</b>	<b>77,886</b>	<b>83,001</b>	<b>518,680</b>
<b>Net Book Value</b>						
December 31, 2020	44,714	352,493	32,317	44,652	23,292	497,468
<b>December 31, 2021</b>	<b>16,449</b>	<b>261,294</b>	<b>5,334</b>	<b>10,229</b>	<b>5,889</b>	<b>299,195</b>

During the year ended December 31, 2022, the Company recognized amortization on its intangible assets of \$148,314 (December 31, 2021 - \$207,958).

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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#### 9. IMPAIRMENT

The Company assesses property, plant and equipment for indicators of impairment on an annual basis, or sooner in the event of changes in circumstances that may indicate that the carrying value of these assets may be impaired. Potential impairment is identified by comparing the recoverable amounts of a CGU to its carrying value. During the year ended December 31, 2022, the Company determined that due to lower than expected revenue, compared to projections set in the prior year as well as a lowered outlook on future revenue growth, there are indicators of impairment in the Company's subsidiary, SMGH, and therefore an impairment test was required.

The recoverable amount of the capital assets was calculated using available market data to determine the fair value of each asset, should it be sold in the open market. As a result of the Company's impairment analysis, an impairment of \$1,118,467 was recognized on the land held in SMGH. As the recoverable amount of other asset classes was above their book value, no impairment was recognized on other capital assets classes.

During the year ended December 31, 2021, the Company conducted an impairment assessment on the assets of two subsidiaries, SMGH and SN. As a result of the Company's impairment analysis, the capital assets of these subsidiaries were written down and an impairment of \$4,160,727 was recorded for the year ended December 31, 2021. The recoverable amount was calculated using a five-year discounted cash flow using a 3% terminal growth rate and a Weighted Average Cost of Capital ("WACC") ranging from 25.85% - 32.27%. The growth rate reflects the long-term average growth rate for SMGH and SN, and the long-term inflation in Colombia. The WACC reflects appropriate adjustments relating to market risk and other relevant risk factors. Management's expected sales forecast is based on available inputs from the Company's most recent sales and profit margins and expenditures are based on the Company's past experience.

	December 31, 2022		December 31, 2021	
Santa Marta Golden Hemp S.A.S.		1,118,467		3,479,289
Sativa Nativa S.A.S.		-		681,438
<b>Ending Balance</b>	<b>\$</b>	<b>1,118,467</b>	<b>\$</b>	<b>3,479,289</b>

#### 10. RIGHT OF USE ASSETS

As of December 31, 2022, and 2021, the Company's right of use assets consisted of the following:

	December 31, 2022		December 31, 2021	
<b>Cost</b>				
Opening balance	\$	670,549	\$	670,549
Lease expiration		(670,549)		-
Additions		392,297		-
Ending balance	\$	392,297	\$	670,549
<b>Accumulated Amortization</b>				
Opening balance	\$	523,357	\$	327,097
Lease expiration		(670,549)		-
Depreciation		169,662		196,260
Ending balance	\$	22,470	\$	523,357
<b>Net Book Value</b>	<b>\$</b>	<b>369,827</b>	<b>\$</b>	<b>147,192</b>

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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#### 10. RIGHT OF USE ASSETS (CONTINUED)

During the year ended December 31, 2022, the Company recognized depreciation on its right of use assets of \$169,662 (December 31, 2021 - \$147,194).

#### 11. DERIVATIVE ASSET

	December 31, 2022		December 31, 2021	
Opening balance	\$	-	\$	526,312
Change in fair value		-		(526,312)
<b>Ending Balance</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

On November 26, 2019, the Company entered into a license agreement (the "License Agreement") with LC2019, Inc. ("LC2019") pursuant to which the Company has agreed to license certain proprietary formulations and brand elements to LC2019 for commercialization in the United States. As consideration for entering into the License Agreement, LC2019 and its shareholders have entered into a definitive option agreement (the "Option Agreement") that grants the Company the option (the "Option") to acquire 100 percent of the issued and outstanding shares of LC2019. The Option is exercisable in the event that cannabis cultivation, processing, distribution and possession becomes federally legal in the United States (the "Triggering Event"), within 10 years from the grant date. The Company may elect to exercise the Option prior to the occurrence of the Triggering Event in its sole discretion or to assign the Option at any time. As of December 31, 2021, the option has not been exercised.

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

The Option was classified as a derivative financial instrument and was initially recorded at its fair value of \$3,780,000. As of December 31, 2022, the fair value of the Option was \$nil (December 31, 2021 - \$nil).

#### 12. LONG-TERM INVESTMENTS

	December 31, 2022		December 31, 2021	
Balance at the beginning of the year	\$	180,000	\$	518,213
Unrealized (loss) gain on change in fair value		-		(338,213)
Disposition of long-term investment		(180,000)		-
<b>Ending balance</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>180,000</b>

Long-term investments consist of 720,000 shares in Southern Sun Pharma ("Southern Sun") purchased for a total cost of \$72. During the year ended December 31, 2020, Southern Sun completed a financing through the sale of units at \$1.25 per unit. Each unit was comprised of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase an additional share at \$1.50 at any time up to 18 months following the closing date. Due to this financing, the Company recognized an unrealized gain from the change in fair value of \$518,141. The Company used an iterative calculation based on the Black-Scholes options pricing model to allocate the subscription price between the half-warrant and the common share. The residual value of each common share was valued at \$1.08; the Company further applied a discount of 7.5 % for the lack of marketability of this investment.

On February 2, 2022, all shares owned by the Company were redeemed by Southern Sun. The shares were redeemed for \$0.25 per share for gross proceeds of \$180,000. During the year ended December 31, 2022, the Company recognized a loss of \$nil and an unrealized loss of \$nil on the fair value of these shares (December 31, 2021 - unrealized loss of \$338,213).

## Avicanna Inc.

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#### 13. DEFERRED REVENUE

		December 31, 2022		December 31, 2021
Opening balance	\$	2,782,101	\$	3,260,101
Additions		677,916		-
Revenue recognized		(1,106,120)		(478,000)
<b>Ending Balance</b>	<b>\$</b>	<b>2,353,897</b>	<b>\$</b>	<b>2,782,101</b>

- [i] Pursuant to the terms of the License Agreement with LC2019 (note 11), the Company transfers brand/trademark as well as intellectual property related to product development. For LC2019 to benefit from the brand, there are activities that the Company would need to perform to support and maintain the value of the brand/ trademark. As ongoing activities are required to maintain the brand, the license to the brand/ trademark would be considered a right to access and therefore would be recognized over time. In addition, given the license is for cannabis related to product development, the Company meets the criteria for right of use of intellectual property and recognize at a point time. However, IFRS 15 states that revenue cannot be recognized for a license that provides a right to use intellectual property before the period during which the customer is able to use and benefit from the license. As cannabis remains federally illegal in the US, there exists restrictions in the benefits that the Company can derive from this license. Consequently, the revenue derived from the above license has been recorded as deferred revenue to be recognized into revenue evenly over a period of ten years. In relation to this contract, the Company recognized \$378,000 as license revenue for the year ended December 31, 2022 (December 31, 2021 - \$378,000).
- [ii] On August 11, 2020, the Company entered into an exclusive Distribution Agreement with a third-party, granting them the exclusive right to promote, market and sell the Company's products. The Company received \$250,000 as consideration of the exclusivity partnership for a period of five years plus an automatic renewal period of five years (the "Exclusivity Fee"). The Company determined that its performance obligation with regards to the contract occurs over a period of time and therefore, revenue is to be recognized straight-line over a ten-year period based on the term of the contract and the automatic term renewal. On August 29, 2022, the Company terminated the Distribution Agreement, because the third-party had failed to meet its obligations, including failing to cure such failure, under the Distribution Agreement. As the Company no longer carries any obligation under the Distribution Agreement, the balance held as deferred revenue was recognized in full in the current period. The Company recognized \$214,584 into License Revenue for the year ended December 31, 2022 (December 31, 2021 - \$25,000).
- [iii] On April 10, 2022, the Company entered into an exclusive license and supply agreement with a South American pharmaceutical company (the "Licensee"). The agreement provides the Licensee with the right to use the Company's intellectual property ("IP") to promote, market and sell the Company's products within Licensee's designated territory for an initial period of five years, commencing on the date of execution. As consideration for the licensing agreement, the Company is to receive a fee of USD\$1,000,000 (\$1,291,255), paid in five tranches; a USD\$100,000 (\$125,955) fee paid on signing of the agreement and the remainder paid in four tranches as the Company meets specific milestones in the transfer of IP. The Company determined that the fee paid upon signing contains a performance obligation which occurs over a period of time and therefore, revenue is to be recognized straight-line over a five-year period based on the term of the contract. In relation to this contract, the Company recognized \$16,794 into License Revenue for the year ended December 31, 2022 (December 31, 2021 - \$nil). Subsequent payments are to be recognized into revenue as each milestone has been met. As of December 31, 2022, the Company has met two milestones resulting in a balance of \$383,929 (USD\$300,000), recognized into revenue (December 31, 2021 - \$nil).
- [iv] On April 22, 2022, the Company entered into an exclusive license and supply agreement with a Brazilian pharmaceutical company (the "Licensee"). The agreement provides the Licensee with the right to use the Company's IP to promote, market and sell the Company's products within the Licensee's designated territory for an initial period of 5 years, commencing on the date of execution. As consideration for the licensing agreement, the Company is to receive a fee of USD\$250,000 (\$322,814), paid in three tranches; a USD\$50,000 (\$63,713) fee paid on signing of the agreement and two USD\$100,000 (\$129,125) as the Licensee meets specific milestones. The Company determined that the fee paid upon signing contains a performance obligation which occurs over a period of time and therefore, revenue is to be recognized straight-line over a five-year period based on the term of the contract. In relation to this contract, the Company recognized \$8,495 into License Revenue for the year ended December 31, 2022 (December 31, 2021 - \$nil). Subsequent fees are to be recognized into revenue as each milestone is met. As of December 31, 2022, the Company has not met either milestone and therefore \$nil was recognized (December 31, 2021 - \$nil).

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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#### 14. LEASE LIABILITY

As of December 31, 2022, and December 31, 2021, the lease liability consisted of the following:

	December 31, 2022		December 31, 2021	
<b>Opening balance</b>	\$	<b>156,247</b>	\$	<b>364,216</b>
Interest incurred on lease liability		17,330		21,486
New leases		392,297		-
Lease payments		(193,753)		(229,455)
<b>Ending balance</b>	\$	<b>372,122</b>	\$	<b>156,247</b>
Lease liability – current portion		150,248		156,247
Lease liability – noncurrent portion		221,874		-

The Company has lease liabilities related to the lease of its corporate offices. On September 30, 2022, the Company's lease on office space ended and a new lease agreement was entered into, effective November 1, 2022. The weighted average discount rate for the year ended December 31, 2022, was 8% percent (December 31, 2021 – 8%).

The total future minimum rent payable under the Company's lease on December 31, 2022, was as follows:

Due in less than 1 year	\$	150,248
Due between 1 and 2 years		150,248
Due between 2 and 3 years		112,686
Total lease payments		413,182
Amounts representing interest over the term of the lease		(41,060)
<b>Present value of minimum lease payments</b>	\$	<b>372,122</b>

#### 15. CONVERTIBLE DEBENTURES

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

	December 31, 2022		December 31, 2021	
Opening balance	\$	-	\$	1,573,695
Additions		1,199,085		-
Accretion expense		662,116		145,839
Converted to common shares		-		(1,172,639)
Repayments		-		(546,895)
<b>Ending Balance</b>	\$	<b>1,861,201</b>	\$	<b>-</b>

(i) On March 1, 2019, the Company completed a convertible debenture offering and raised gross proceeds of \$783,000. The debentures incurred interest at 8.0% per annum and had a maturity date of March 1, 2021. Each debenture was convertible, at the option of the holder, at any time before the maturity date, into fully paid and non-assessable common shares at the conversion price, representing a conversion rate of 125 common shares per \$1,000 of principal, subject to adjustment in accordance with the debenture certificates. On March 1, 2021, the principal of these debentures, and accrued interest of \$125,280, were converted into 113,535 common shares.

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

## Avicanna Inc.

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#### 15. CONVERTIBLE DEBENTURES (CONTINUED)

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

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

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

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

As a result, the Company recognized the following:

Convertible debenture	\$	754,923
Issuance Costs		199,926
Derivative liability (Note 17)		145,151
	\$	<b>1,100,000</b>

During the year ended December 31, 2022, the Company recognized accretion expense of \$nil (December 31, 2021 - \$77,351) and interest expense of \$nil (December 31, 2021 - \$31,824) in relation to these convertible debentures.

On February 25, 2021, holders of the convertible debenture exercised \$200,000 of principal into 200,000 Common Shares of the Company and on March 17, 2021, an additional \$300,000 of principal into 300,000 common shares were issued on the exercise of convertible debentures. On April 5, 2021, the Company repaid \$300,000 of the principal amount.

(ii) On January 28, 2022, the Company completed a convertible debenture offering through the issuance of 1,938 convertible debenture units, issued at a price of \$800 per unit for gross proceeds of \$1,550,400. Each debenture unit consists of an aggregate of \$1,000 principal of secured subordinated convertible debentures of 545 common share purchase warrants.

The debentures will mature one year following the closing date. Each debenture shall be convertible at any time following the date that is year from the closing date, at the option of the holder, into common shares at a price of: (A) \$1.20 per share, if converted between the period commencing year from the closing date and ending on the second business day prior to the maturity date; or (B) \$0.85 per share, if converted anytime after the second business day prior to the maturity date. The debentures will not bear interest prior to the Maturity Date, after which they will bear interest at a rate of 15%.

Each common share purchase warrant is exercisable into one common share at a price of \$1.10 per share for a period of three years from the closing date.

The portion of the proceeds will be allocated to the warrants and the conversion option, which has been accounted for as a derivative liability. The fair value assigned to the warrants was \$206,255 and was determined using the Black-Scholes Option Pricing Model using the following variables: risk-free rate of 1.4%, volatility of 95.3%, expected life of 3 years, dividend yield 0% and share price of \$0.47. Refer to note 17 for details on the fair value of the conversion option.

## Avicanna Inc.

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#### 15. CONVERTIBLE DEBENTURES (CONTINUED)

As a result, the Company recognized the following:

Convertible debenture	\$	1,199,085
Issuance Costs		77,162
Warrants (Note 19)		206,255
Derivative liability (Note 17)		67,897
	\$	<b>1,550,400</b>

During the year ended December 31, 2022, the Company recognized accretion expense of \$662,116 (December 31, 2021 - \$nil) and interest expense of \$nil (December 31, 2021 - \$nil) in relation to these convertible debentures.

Subsequent to December 31, 2022, the Company entered into amended agreements with the holders of these convertible debentures (note 28).

#### 16. LOANS PAYABLE

	December 31, 2022		December 31, 2021	
Opening balance	\$	1,505,933	\$	-
Additions:				
Term loan		-		1,122,940
Bank loan		-		659,086
Repayments		(1,214,875)		(544,245)
Accretion		738,165		297,198
Foreign exchange translation		(52,826)		(29,046)
<b>Ending Balance</b>	\$	<b>976,397</b>	\$	<b>1,505,933</b>
Current	\$	796,846	\$	1,090,107
Non-current	\$	179,551	\$	415,826

##### *Term loan*

On August 18, 2021, the Company entered into a term loan agreement for principal of \$2,118,000, incurring 5% interest for a term of 13 months. The loan principal is to be repaid in 12 equal monthly payments, beginning 2 months after the issuance date. The balance was recognized net of the following discounts and issuance costs:

Principal	\$	2,118,000
Discount		(318,000)
Issuance Costs		(100,000)
Warrants (Note 19)		(577,060)
	\$	<b>1,122,940</b>

As part of the term loan agreement, the Company issued 1,636,364 common share purchase warrants to the lender, exercisable into common shares of the Company for 3 years from the date of issuance at a price of \$1.10 per common share. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: risk-free rate of 0.55%, volatility of 98%, expected life of 1.5 years, dividend yield 0% and share price of \$1.08.

On October 31, 2022, the Company entered into an extension agreement in connection with this term loan. Under the terms of the extension, the maturity date was extended by 5 months to March 19, 2023, accruing interest at the original rate of 5%. The Company will make monthly payments of \$50,000 plus any accrued interest, with the balance paid in a lump sum on the maturity date. In addition, the Company will pay a fee equal to 15% of the amount extended. The fee is payable on the maturity date and does not accrue interest.



## Avicanna Inc.

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#### 16. LOANS PAYABLE (CONTINUED)

On March 20, 2023, the balance of the term loan was repaid in full.

During the year ended December 31, 2022, the Company incurred accretion expense of \$738,165 (December 31, 2021 - \$297,198) and interest expense of \$47,942 (December 31, 2021 - \$35,904) in relation to this loan.

##### *Bank loan*

On October 28, 2021, the Company's majority owned subsidiary, SMGH, received a bank loan from a financial institution in Colombia. SMGH borrowed principal of \$659,086 (COL\$2,000,000,000), incurring interest at 8.3% over a term of 3 years. The loan is to be repaid in 12 quarterly payments over the life of the loan.

During the year ended December 31, 2022, the Company incurred interest expense of \$41,771 (December 31, 2021 - \$9,159) in relation to this loan.

#### 17. DERIVATIVE LIABILITIES

	December 31, 2022	December 31, 2021
Opening balance	\$ -	\$ 145,151
Additions	67,897	-
Repayment on convertible debenture	-	(79,789)
Conversions	-	(204,266)
Gain on change in fair value	(66,925)	138,904
<b>Ending Balance</b>	<b>\$ 972</b>	<b>\$ -</b>

[i] On November 2, 2020, the Company completed a convertible debenture offering (note 15). The Conversion Option and the warrants issued in relation to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. At inception, the Company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options. As a result, the Company recognized, a derivative liability of \$145,151, representing the conversion option of \$111,297 and warrants of \$33,854.

On February 25, 2021, a fair value of \$72,714 was transferred to share capital on the conversion of debentures into 200,000 common shares. On March 17, 2021, a fair value of \$89,575 was transferred to share capital on the conversion of debentures into 300,000 common shares. As of December 31, 2022, and December 31, 2021, the fair value of the derivative liability was \$nil.

[ii] On January 28, 2022, the Company completed a convertible debenture offering (note 15). As there are more than one conversion price that investors can exercise at, the conversion option does not meet the fixed-for-fixed criteria under IFRS 9, and therefore is accounted for as a derivative liability at fair value through profit or loss. On the date of issuance, the conversion option had a fair value of \$67,897 which was determined using the Black-Scholes option pricing model with the following variables: risk-free rate of 0.98%, volatility of 63.2%, expected life of 1 year, dividend yield 0% and share price of \$0.47, exercise price of \$0.85 - \$1.20. As of December 31, 2022, the conversion option was revalued and determined to have a fair value of \$972, using the following variables: risk-free rate of 4.14%, volatility of 146.31%, expected life of 1 month, dividend yield 0% and share price of \$0.32, exercise price of \$0.85 (December 31, 2021 - \$nil). For the year ended December 31, 2022, a gain on the change in fair value of \$66,925 was recognized (December 31, 2021 - \$nil).

## Avicanna Inc.

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#### 18. RELATED PARTY TRANSACTIONS

The Company defines key management personnel as the Chief Executive Officer, Chief Legal Officer, Chief Financial Officer, and President of LATAM. The following outlines salaries and shared based compensation paid to key management personnel:

		For the year ended December 31,	
		2022	2021
Salaries	\$	655,794	\$ 477,061
Stock-based compensation		573,780	186,644
	\$	<b>1,229,574</b>	<b>\$ 663,705</b>

Additionally, as of December 31, 2022, the Company accumulated advances from certain related parties who represent the minority shareholders of SMGH in the amount of \$3,843,196 (December 31, 2021- \$3,659,931). The advances relate to minority partners contributions towards the expansion and operation of the cultivation facilities. The balance owed to the related party is interest free. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the year ended December 31, 2022, \$nil was converted into equity in SMGH (December 31, 2021 - \$nil).

Changes in the balances are disclosed in the following table:

		December 31, 2022		December 31, 2021	
Opening Balance	\$	3,659,931	\$	4,319,545	
Additions		760,795		68,120	
Foreign exchange		(577,530)		(727,734)	
<b>Ending Balance</b>	<b>\$</b>	<b>3,843,196</b>	<b>\$</b>	<b>3,659,931</b>	

#### 19. SHARE CAPITAL

##### Authorized and outstanding share capital:

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares with no par value. As of December 31, 2022, the Company had 74,952,800 common shares issued and outstanding (December 31, 2021 – 45,884,282).

- [i] On February 25, 2021, 99,595 common shares were issued on the exercise of common share purchase warrants. A total of 99,595 warrants were exercised at a price of \$0.85 per common share for gross proceeds of \$84,656. The common share purchase warrants exercised held a fair value of \$40,227.
- [ii] On March 4, 2021, the Company issued an aggregate of 4,480,000 Units (the “Units”) at a price of \$1.25 per Unit for net proceeds of \$5,350,050, comprised of aggregate gross proceeds of \$5,600,000 less share issuance costs of \$249,950. Each Unit was comprised of one (1) common share in the capital of the Company and one (1) common share purchase warrant (“Warrant”). Each Warrant is exercisable into one common share in the capital of the Company at a price of \$1.75 until March 4, 2024.

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

Common shares	\$	3,599,023
Warrants		1,751,027
	\$	<b>5,350,050</b>

## Avicanna Inc.

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#### 19. SHARE CAPITAL (CONTINUED)

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

- [iii] On October 19, 2021, the Company issued an aggregate of 4,587,022 Units (the “Units”) at a price of \$0.85 per Unit for net proceeds of \$3,740,642, comprised of aggregate gross proceeds of \$3,898,969 less share issuance costs of \$158,327. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant (“Warrant”). Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$1.10 until October 19, 2024.

The net proceeds of \$3,740,642 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	3,186,604
Warrants		554,038
	\$	<b>3,740,642</b>

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.85, a risk-free interest rate of 0.74%, an expected annualized volatility of 96% and expected dividend yield of 0%.

- [iv] On March 31, 2022, the Company issued an aggregate of 7,210,194 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$2,491,068, comprised of aggregate gross proceeds of \$2,523,568 less share issuance costs of \$32,500. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until March 31, 2025.

As compensation related to this financing, the Company issued 92,857 broker warrants, exercisable into one common share in the capital of the Company at a price of \$0.40 until March 31, 2025.

The net proceeds of \$2,491,068 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	1,959,837
Warrants		517,892
Broker warrants		13,339
	\$	<b>2,491,068</b>

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.35, a risk-free interest rate of 2.28%, an expected annualized volatility of 94.73% and expected dividend yield of 0%.

- [v] On May 6, 2022, the Company issued an aggregate of 4,210,931 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$1,428,826, comprised of aggregate gross proceeds of \$1,473,826 less share issuance costs of \$45,000. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until May 6, 2025.

The net proceeds of \$1,428,826 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

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#### 19. SHARE CAPITAL (CONTINUED)

Common shares	\$	1,200,836
Warrants		227,990
	\$	<b>1,428,826</b>

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.30, a risk-free interest rate of 2.75%, an expected annualized volatility of 95.89% and expected dividend yield of 0%.

[vi] On August 17, 2022, the Company issued an aggregate of 7,949,433 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$2,782,301. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until August 17, 2025.

The net proceeds of \$2,782,301 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	2,147,209
Warrants		635,092
	\$	<b>2,782,301</b>

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.36, a risk-free interest rate of 3.30%, an expected annualized volatility of 99.79% and expected dividend yield of 0%.

[vii] On November 10, 2022, the Company issued an aggregate of 1,790,750 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$610,288, comprised of gross proceeds of \$626,763 less issuance costs of \$16,475. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until November 10, 2025.

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

Common shares	\$	502,880
Warrants		102,925
Broker warrants		4,483
	\$	<b>610,288</b>

The fair value of the common share purchase warrants and broker warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.30, a risk-free interest rate of 4.05%, an expected annualized volatility of 96.53% and expected dividend yield of 0%.

[viii] On December 21, 2022, the Company issued an aggregate of 5,054,562 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$1,763,597, comprised of gross proceeds of \$1,769,097 less issuance costs of \$5,500. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until December 21, 2025.

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**19. SHARE CAPITAL (CONTINUED)**

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

Common shares	\$	1,379,097
Warrants		384,500
	\$	<b>1,763,597</b>

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.37, a risk-free interest rate of 3.48%, an expected annualized volatility of 92.28% and expected dividend yield of 0%.

**Warrant Reserve**

As of December 31, 2022, the following warrants were outstanding and exercisable:

	Warrants #	Weighted average exercise price \$
<b>Outstanding as of December 31, 2020</b>	<b>7,800,048</b>	<b>2.62</b>
Warrants issued	8,409,875	0.82
Warrants exercised	(99,595)	0.01
Warrants expired	(1,245,713)	0.82
<b>Outstanding as of December 31, 2021</b>	<b>14,864,615</b>	<b>1.40</b>
Warrants expired	(2,612,413)	0.15
Warrants issued	14,295,997	0.24
<b>Outstanding as of December 31, 2022</b>	<b>26,548,199</b>	<b>0.90</b>

The following table is a summary of the Company's warrants outstanding as of December 31, 2022:

Exercise price range \$	Warrants Outstanding		Warrants Exercisable	
	Number outstanding #	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable #
3.00	411,360	0.00	0.05	411,360
1.20	3,430,967	0.12	0.16	3,430,967
1.75	4,480,000	0.20	0.30	4,480,000
1.10	4,986,085	0.34	0.21	4,986,085
0.40	13,239,787	1.00	0.20	13,239,787
	<b>26,548,199</b>	<b>1.65</b>	<b>0.90</b>	<b>26,548,199</b>

## Avicanna Inc.

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#### 20. SHARE BASED PAYMENT RESERVE AND COMPENSATION

The Company has established a Long-Term Omnibus Compensation Plan (the “Omnibus Plan”) for directors, officers, employees, and consultants of the Company. The Company’s Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options and share units granted to individuals under the Omnibus Plan.

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

The Company’s Omnibus Plan provides that the number of common shares reserved for issuances of options may not exceed 10%, and the number of common shares reserved for the issuance of share units must not exceed 4%, of the number of common shares outstanding. If any options or share units terminate, expire, or are cancelled, as contemplated by the Omnibus Plan, the number of options or share units so terminated, expired, or cancelled shall again be available under the Omnibus Plan.

Share-based compensation is comprised of the following:

	For the year ended December 31,	
	2022	2021
Stock options	\$ 180,845	\$ 561,761
Restricted Stock Units	861,721	751,007
	<b>\$ 1,042,566</b>	<b>\$ 1,312,768</b>

#### Employee and non-employee options

##### *[i] Measurement of fair values*

The fair value of share options granted during the years ended December 31, 2022, and 2021, was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2022	2021
Grant date share price	\$0.31	\$0.85
Exercise price	\$0.37	\$1.00
Expected dividend yield	0%	0%
Risk-free interest rate	3.31%	0.74%
Expected option life	5 years	6 years
Expected volatility	100.75%	96%

Expected volatility was estimated by using the historical volatility of the Company’s publicly traded common shares. The expected option life represents the period that options granted are expected to be outstanding. The risk-free interest rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

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

For the Years Ended December 31, 2022, and 2021

(Expressed in Canadian dollars)

**20. SHARE BASED PAYMENT RESERVE AND COMPENSATION (CONTINUED)***[ii] Options Issued and Outstanding*

	Options #	Weighted average exercise price \$
<b>Outstanding on December 31, 2020</b>	<b>1,952,667</b>	<b>2.94</b>
Options issued	320,000	1.00
Options cancelled and forfeited	(776,178)	3.15
<b>Outstanding on December 31, 2021</b>	<b>1,496,489</b>	<b>2.39</b>
Options issued	90,000	0.37
Options cancelled and forfeited	(53,692)	1.78
<b>Outstanding on December 31, 2022</b>	<b>1,532,797</b>	<b>2.29</b>

During the year ended December 31, 2022, the Company recognized a total share-based compensation expense relating to options of \$180,845 (December 31, 2021 - \$561,761).

The following table is a summary of the Company's share options outstanding as of December 31, 2022:

Exercise price range \$	Options Outstanding		Options Exercisable	
	Number outstanding #	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable #
0.37	90,000	0.29	0.02	-
1.00	686,666	1.77	0.45	411,333
1.24	4,167	0.01	0.00	3,333
1.39	13,000	0.03	0.01	8,667
2.00	265,000	0.39	0.35	265,000
2.50	81,002	0.35	0.13	81,002
2.75	202,867	0.41	0.36	149,133
5.00	14,595	0.02	0.05	14,595
7.30	2,000	0.00	0.01	2,000
8.00	173,500	0.32	0.91	173,500
	<b>1,532,797</b>	<b>3.30</b>	<b>2.29</b>	<b>1,208,564</b>

**Restricted Stock Units**

The fair value of restricted stock units ("RSUs") granted is based on the market price of the Company's publicly traded common shares on the grant date.

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**20. SHARE BASED PAYMENT RESERVE AND COMPENSATION (CONTINUED)**

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

	RSUs #	Weighted average issue price \$
<b>Outstanding on December 31, 2020</b>	<b>440,636</b>	<b>2.30</b>
RSUs vested	(232,190)	1.96
RSUs issued	713,748	1.25
RSUs forfeited and cancelled	(180,186)	0.74
<b>Outstanding on December 31, 2021</b>	<b>742,008</b>	<b>1.45</b>
RSUs vested [i]	(2,782,562)	0.52
RSUs issued [ii]	3,147,435	0.33
RSUs forfeited	(13,000)	1.25
<b>Outstanding on December 31, 2022</b>	<b>1,093,881</b>	<b>0.59</b>

[i] During the year ended December 31, 2022, 2,782,562 common shares were issued on the vesting of restricted stock units. The grant price of the exercised units ranged from \$0.32 to \$1.25.

[ii] During the year ended December 31, 2022, 3,147,435 restricted stock units were issued with a fair value of between \$0.32 - \$0.35 per unit. Of the units issued, 2,261,739 vested immediately and 885,696 vest over two years.

During the year ended December 31, 2022, the Company recognized a total share-based compensation expense relating to restricted stock units of \$861,721 (December 31, 2021 - \$751,007).

**21. NON-CONTROLLING INTEREST**

The following table presents the summarized financial information about the Company's subsidiaries that have non-controlling interests. This information represents amounts before intercompany eliminations as of December 31, 2022 and 2021.

<b>Santa Marta Golden Hemp S.A.S.</b>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Current assets	\$	3,448,398	\$	4,218,309
Non-current assets		9,563,867		12,295,771
Current liabilities		(10,459,921)		(9,554,576)
Non-current liabilities		(176,551)		(415,826)
<b>Ending Balance</b>	<b>\$</b>	<b>2,372,793</b>	<b>\$</b>	<b>6,543,678</b>

<b>Sativa Nativa S.A.S.</b>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Current assets	\$	-	\$	33,455
Non-current assets		-		1,332,886
Current liabilities		-		(990,264)
<b>Ending Balance</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>376,077</b>

<b>Sigma Magdalena Canada Inc.</b>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Current assets	\$	2,664	\$	2,992
Current liabilities		(197,391)		(221,645)
<b>Ending Balance</b>	<b>\$</b>	<b>(194,727)</b>	<b>\$</b>	<b>(218,653)</b>



## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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#### 21. NON-CONTROLLING INTEREST (CONTINUED)

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

	December 31, 2022		December 31, 2021	
Opening Balance	\$	5,761,835	\$	7,893,712
Sale of Sativa Nativa S.A.S.		247,158		-
Foreign translation		(353,261)		(728,566)
Net loss attributed to non-controlling interest		(1,313,521)		(1,403,311)
<b>Ending Balance</b>	<b>\$</b>	<b>3,842,211</b>	<b>\$</b>	<b>5,761,835</b>

#### 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

##### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

As of December 31, 2022, \$2,121,619 in trade and other receivables remained outstanding (December 31, 2021 – \$1,130,187). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate.

A summary of aged trade and other receivables is included below:

	December 31, 2022					Total
	Current	1 - 30	31 - 60	61 - 90	90 +	
	\$	\$	\$	\$	\$	\$
<b>Trade and other receivables</b>	799,216	343,150	90,552	290,501	598,200	2,121,619

  

	December 31, 2021					Total
	Current	1 - 30	31 - 60	61 - 90	90 +	
	\$	\$	\$	\$	\$	\$
<b>Trade and other receivables</b>	618,883	48,922	16,274	9,975	436,133	1,130,187

During the year ended December 31, 2022, the Company has recognized an estimated credit losses of \$375,553 (December 31, 2021, – \$168,641).

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity risk

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

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

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3 +
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	-
	<b>\$ 7,962,515</b>	<b>\$ 8,138,087</b>	<b>\$ 7,713,311</b>	<b>\$ 329,799</b>	<b>\$ 112,686</b>

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*

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*

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

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### Other price risk

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

### Fair values

The carrying values of cash, amounts receivable, 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			Total
	Level 1	Level 2	Level 3	
<b>Financial liabilities at FVTPL</b>				
Derivative Liability	-	972	-	972
<b>December 31, 2021</b>				
	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>				
Long-term investments	180,000	-	-	180,000

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

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**23. GENERAL AND ADMINISTRATIVE EXPENSES**

	For the year ended December 31	
	2022	2021
Office and general	\$ 2,033,345	\$ 2,244,188
Selling marketing and promotion	380,082	345,908
Consulting fees	1,408,485	1,739,529
Professional fees	942,000	2,342,823
Salaries and wages	4,179,460	4,893,073
Research	276,938	304,312
	<b>\$ 9,220,310</b>	<b>\$ 11,869,833</b>

During the year ended December 31, 2022, as part of its inventory costing process, the Company capitalized \$243,244 of salaries to inventory and biological assets (December 31, 2021 – \$327,711).

**24. INCOME TAX****Current tax**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 – 26.5%) to the effective tax rate is as follows:

	For the year ended December 31	
	2022	2021
	\$	\$
Net loss before recovery of income taxes	(14,735,291)	(16,760,773)
Expected income tax recovery	(3,904,850)	(4,441,605)
Tax rate changes and other adjustments	(341,180)	(821,521)
Permanent difference	606,750	(155,033)
Loan payable booked to warrant	38,200	152,921
Prior year true-up	205,460	3,346,839
Difference in loss on sale of SN	188,320	-
Change in tax benefits not recognized	3,207,300	1,932,165
Income tax recovery	-	13,766

The Company's income tax recovery is allocated as follows:

	For the year ended December 31	
	2022	2021
	\$	\$
Current tax (recovery) expense	-	(20,684)
Deferred tax (recovery) expense	-	34,450
	-	(13,766)

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

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**24. INCOME TAX (CONTINUED)****Deferred tax**

The following table summarizes the components of deferred tax:

	December 31, 2022	December 31, 2021
	\$	\$
<b>Deferred tax assets</b>		
Property and equipment	89,800	111,540
Capital lease obligation	98,610	41,405
Deferred revenue	623,780	737,257
Unrealized loss on investment	-	44,813
Convertible debentures	493,480	-
Term loan	159,740	232,112
Inventory impairment	1,232,140	468,711
Reserves	55,390	284,882
Share issuance costs	359,350	460,473
Foreign Exchange	705,700	361,092
Capital losses – Canada	119,830	-
Losses Canada	9,893,450	8,214,685
Losses Colombia	4,369,200	4,674,963
Valuation allowance	(17,670,120)	(15,561,533)
	<b>530,350</b>	<b>70,396</b>
<b>Deferred tax liabilities</b>		
Property and equipment	1,387,950	1,150,370
Intangible assets	(10,130)	(33,207)
Capital lease assets	(98,000)	(39,006)
Term loan	(150,350)	(420,953)
Convertible debentures	(513,580)	-
Net fair value inventory	(1,146,240)	(727,600)
	<b>(530,350)</b>	<b>(70,396)</b>
<b>Net deferred tax liability</b>	<b>-</b>	<b>-</b>

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

The following table represents the movement in net deferred tax liabilities

	December 31, 2022	December 31, 2021
	\$	\$
Balance at the beginning of the year	-	34,450
Recognized in profit and loss	-	(34,450)
<b>Deferred tax asset</b>	<b>-</b>	<b>-</b>

## Avicanna Inc.

### Notes to the Consolidated Financial Statements

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#### 24. INCOME TAX (CONTINUED)

##### *Unrecognized deferred tax assets*

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2022	December 31, 2021
	\$	\$
Share issuance costs	1,356,050	1,737,633
Capital loss – Canada	904,400	-
Losses carried forward – Canada	37,325,150	30,990,168
Losses carried forward – Colombia	14,017,300	13,637,251
	<b>53,602,900</b>	<b>46,365,051</b>

The Canadian non-capital loss carryforwards expire as noted in the table below. The Colombian loss carry forwards expire between 2019 and 2032. Share issue and financing costs will be fully amortized in 2026. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

	\$
2036	11,570
2037	2,398,600
2038	4,810,280
2039	3,912,610
2040	6,656,380
2041	5,337,630
2042	7,593,630
2043	6,604,450
	<b>37,325,150</b>

#### 25. SEGMENT REPORTING

Operating segments are determined based on internal reporting that is regularly reviewed by the chief operating decision maker (“CODM”) for the purpose of allocating resources to the segment and for assessing its performance. As of December 31, 2022, the Company determined that it has four operating segments, three organized by geographical area: North America, South America, and rest of world, and Corporate, comprised of costs which serve the Company’s global administrative responsibilities.

North America includes sales of the Company’s pharmaceutical 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 API to customers worldwide, all grown and developed in Colombia. Rest of world includes sales of products to customers in Europe and Central America. Corporate includes overhead and financing costs incurred by the Company to support its public company infrastructure and operating segments.

**Avicanna Inc.**

**Notes to the Consolidated Financial Statements**

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**25. SEGMENT REPORTING (CONTINUED)**

	North America	South America	Rest of World	Corporate	Total
<b>Year ended December 31, 2022</b>					
<b>Statement of Financial Position</b>					
Current assets	\$ 2,933,367	\$ 4,052,662	\$ 78,389	\$ -	\$ 7,064,418
Non-current assets	701,862	9,852,951	-	-	10,554,813
Current liabilities	(5,967,677)	(5,426,210)	(11,372)	-	(11,405,259)
Non-current liabilities	(2,575,769)	(179,552)	-	-	(2,755,321)
<b>Statement of Operations and Comprehensive Loss</b>					
Revenue	2,982,262	1,030,213	35,406	-	4,047,881
Gross margin	1,066,895	23,610	24,836	-	1,115,341
Operating expenses	(5,277,304)	(4,503,296)	(75,287)	(2,788,341)	(12,644,228)
Net loss before tax	(5,669,546)	(4,696,296)	(50,114)	(4,319,335)	(14,735,291)
<b>Year ended December 31, 2021</b>					
<b>Statement of Financial Position</b>					
Current assets	\$ 2,442,217	\$ 4,836,664	\$ 74,749	\$ -	\$ 7,353,630
Non-current assets	934,258	14,013,726	-	-	14,947,984
Current liabilities	(5,605,004)	(6,547,731)	(42,930)	-	(12,195,665)
Non-current liabilities	(2,782,101)	(415,826)	-	-	(3,197,927)
<b>Statement of Operations and Comprehensive Loss</b>					
Revenue	2,256,216	981,499	31,191	-	3,268,906
Gross margin	720,032	2,095,027	16,761	-	2,831,820
Operating expenses	(5,306,873)	(8,276,264)	(176,723)	(4,646,096)	(18,405,956)
Net loss before tax	(6,092,786)	(5,863,974)	(157,917)	(4,646,096)	(16,760,773)

**26. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL**

	For the year ended December 31	
	2022	2021
Amounts receivable	\$ 369,281	\$ (1,499,179)
Biological assets	953,623	(432,667)
Inventory	(87,627)	(1,725,981)
Prepaid assets	434,264	420,294
Accounts payable	(239,428)	809,205
Income tax payable	-	(20,684)
	<b>\$ 1,430,114</b>	<b>\$ (2,449,012)</b>

## Avicanna Inc.

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#### 27. DIVESTITURE OF SATIVA NATIVA S.A.S.

On June 29, 2022, the Company and the non-controlling shareholders (collectively the “Shareholders”) of Sativa Nativa S.A.S (“SN”), closed an agreement to divest 100% of the outstanding common shares of SN to an unrelated third-party. SN operates a farm and processing facility in Santa Marta, Colombia and has licenses to harvest and extract medical cannabis in Colombia.

Pursuant to the agreement, the Shareholders received a cash payment of USD\$883,075 (\$1,137,935). The Shareholders are also entitled to additional funds of USD\$170,000 (\$219,063) upon successful transfer of the processes and technology. The Company’s compensation as a result of this transaction was USD\$519,513 (\$669,446) cash and additional cash consideration of USD\$98,600 (\$127,056) which is proportional to the Company’s ownership share of 63%.

Following the SN divestiture, the Company no longer controls SN and the Company derecognized the assets and liabilities of SN from the Consolidated financial statements, at their carrying amounts. Pursuant to the agreement with the acquirer, the balances owed to the Company, will be forgiven. The derecognized assets and liabilities on June 29, 2022, were as follows:

Current assets	\$	(448,246)
Capital assets		(1,270,071)
Current liabilities		1,918,563
Cumulative translation adjustment		425,405
	\$	625,651
Consideration received in cash		1,137,935
Future cash consideration		219,063
Proportion of compensation allocated to non-controlling interests		(560,494)
	\$	796,504
Forgiveness of balance receivable by Avicanna Inc.	\$	(2,953,149)
<b>Loss on sale of Sativa Nativa S.A.S.</b>	<b>\$</b>	<b>(1,530,994)</b>

The loss calculated on the derecognition of SN’s assets and liabilities is the difference between the carrying amounts of the derecognized assets and liabilities, inclusive of any cumulative translation adjustment amounts and the fair value of the consideration received.

#### 28. SUBSEQUENT EVENTS

- [i] 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, with a value of \$876,000, were converted into an aggregate of 2,190,000 common shares and moved to share capital. The remaining convertible debentures with a fair value \$1,062,000, remain as current liabilities.
- [ii] 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.