

Avicanna Inc.
Condensed Consolidated Interim Financial Statements
Unaudited
For the Three and Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian dollars)

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

	Note	September 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		\$ 718,287	\$ 1,194,040
Amounts receivable	5	4,189,736	2,149,371
Prepaid assets		618,013	480,978
Biological assets	6	22,266	129,824
Inventory	7	5,652,167	3,110,205
Total current assets		11,200,469	7,064,418
Right of use asset	10	268,898	369,827
Property and equipment	8	11,599,560	10,017,358
Intangible assets	9	1,638,371	167,628
Total assets		\$ 24,707,298	\$ 17,619,231
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and accrued liabilities		\$ 9,250,148	\$ 4,752,796
Lease liability – current portion	13	150,248	150,248
Loan payable – current portion	15	1,517,935	796,846
Convertible debentures	14	294,723	1,861,201
Derivative liability	16	-	972
Royalty liability	17	1,165,000	-
Due to related party	18	5,174,602	3,843,196
Total current liabilities		17,552,656	11,405,259
Lease liability	13	127,886	221,873
Loan payable	15	43,271	179,551
Deferred revenue	12	2,041,947	2,353,897
Total liabilities		19,765,760	14,160,580
Shareholders' Equity			
Share capital	19	80,180,646	74,894,122
Warrants	19	11,852,642	11,714,410
Share-based payment reserve	20	7,107,057	6,808,009
Accumulated other comprehensive loss		(1,977,404)	(2,970,864)
Deficit		(96,137,770)	(90,829,237)
Equity attributable to owners of the parent		1,025,171	(383,560)
Non-controlling interest	21	3,916,367	3,842,211
Total equity		4,941,538	3,458,651
Total liabilities and shareholders' equity		\$ 24,707,298	\$ 17,619,231

Nature of operations and going concern uncertainty – Note 1

Approved by the Board

/s/ Eileen McCormack, Director

/s/ John McVicar, Audit Committee Chair, Director

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
For the Three and Nine Months Ended September 30, 2023, and 2022
Unaudited
(Expressed in Canadian Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Revenue					
Service Revenue		\$ 1,772	\$ 74,272	\$ 46,805	\$ 168,797
License Revenue	12	106,688	381,364	386,272	973,115
Product Sales		6,144,490	315,627	10,304,963	1,769,869
Total Revenue		6,252,950	771,263	10,738,040	2,911,781
Cost of goods sold		(3,324,453)	(217,013)	(5,908,526)	(1,352,637)
Gross margin before the undernoted		2,928,497	556,250	4,829,514	1,559,144
Inventory (impairment) recovery		354,232	(178,196)	197,389	(172,802)
Fair value changes in biological assets included in inventory sold		(72,220)	4,949	(74,638)	(56,136)
Unrealized gain on changes in fair value of biological assets		(347,261)	145,573	(13,046)	1,709,772
Gross margin		2,863,248	526,576	4,939,219	3,039,978
Expenses					
General and administrative	23	3,402,147	2,402,887	7,866,875	6,793,946
Share-based compensation	20	506,499	158,241	2,004,996	807,484
Depreciation and amortization	8,9,10	233,839	217,693	551,464	720,149
Expected credit loss	5	66,979	143,922	83,433	203,151
Total Expenses		(4,209,464)	(2,922,743)	(10,506,768)	(8,524,730)
Other income (expenses)					
Foreign exchange loss		(990)	(7,058)	(25,461)	(42,641)
Gain on disposal of capital assets		82	5,001	2,153	5,001
Gain (loss) on fair value of derivative liability		-	(9,676)	56,785	38,809
Other income		58,450	52,181	299,520	147,475
Interest expense		(85,064)	(67,012)	(208,856)	(218,797)
Accretion		(50,341)	(467,143)	(248,272)	(1,106,836)
Loss on sale of Sativa Nativa S.A.S.	26	-	-	-	(1,530,994)
Net loss		\$ (1,424,079)	\$ (2,889,874)	\$ (5,691,680)	\$ (8,192,735)
Exchange differences on translation of foreign operations		398,474	(169,253)	1,450,763	1,551,948
Net comprehensive loss		\$ (1,025,605)	\$ (3,059,127)	\$ (4,240,917)	\$ (6,640,787)
Net comprehensive loss attributable to non-controlling interest	21	(6,662)	(174,231)	74,156	56,695
Net comprehensive loss attributable to Shareholders of the Company	21	(1,018,943)	(2,884,896)	(4,315,073)	(6,697,482)
Total comprehensive loss		\$ (1,025,605)	\$ (3,059,127)	\$ (4,240,917)	\$ (6,640,787)
Weighted average number of common shares – basic and diluted		87,142,161	59,726,627	81,306,837	52,297,861
Net loss per share – basic and diluted		\$ (0.01)	\$ (0.05)	\$ (0.05)	\$ (0.13)

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2023, and 2022
Unaudited
(Expressed in Canadian Dollars)

	Note	Common shares #	\$	Warrants \$	Share-based payment Reserve \$	Deficit \$	Accumulated other comprehensive loss \$	Non-controlling interest \$	Total \$
December 31, 2022		74,952,800	74,894,122	11,714,410	6,808,009	(90,829,237)	(2,970,864)	3,842,211	3,458,651
Share-based compensation	20	-	-	-	2,004,996	-	-	-	2,004,996
Settlement of RSUs	20	4,373,373	1,995,007	-	(1,705,948)	-	-	-	289,059
Issuance of units	19	3,096,230	1,019,089	207,303	-	-	-	-	1,226,392
Conversion of debentures	14,16	2,190,000	876,000	-	-	-	-	-	876,000
Exercise of warrants	19	2,885,754	1,396,428	(242,107)	-	-	-	-	1,154,321
Warrants issued with debentures	14,19	-	-	173,036	-	-	-	-	173,036
Foreign exchange translation		-	-	-	-	-	993,460	457,303	1,450,763
Net loss		-	-	-	-	(5,308,533)	-	(383,147)	(5,691,680)
September 30, 2023		87,498,157	80,180,646	11,852,642	7,107,057	(96,137,770)	(1,977,404)	3,916,367	4,941,538
December 31, 2021		45,884,282	66,243,911	9,621,935	6,847,200	(77,407,467)	(4,159,392)	5,761,835	6,908,022
Share-based compensation	20	-	-	-	807,484	-	-	-	807,484
Settlement of RSUs	20	2,421,220	1,097,416	-	(720,308)	-	-	-	377,108
Issuance of units	19	19,370,558	5,307,883	1,394,312	-	-	-	-	6,702,195
Sale of Sativa Nativa S.A.S.		-	-	-	-	-	-	247,158	247,158
Warrants issued with debentures	14,19	-	-	206,255	-	-	-	-	206,255
Foreign exchange translation		-	-	-	-	-	1,850,509	(298,561)	1,551,948
Net loss		-	-	-	-	(8,547,991)	-	355,256	(8,192,735)
September 30, 2022		67,676,060	72,649,210	11,222,502	6,934,376	(85,955,458)	(2,308,883)	6,065,688	8,607,435

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Cash Flow
For the Nine Months Ended September 30, 2023, and 2022
Unaudited
(Expressed in Canadian Dollars)

For the Nine Months Ended September 30,

	Note	2023	2022
Cash flows from operating activities			
Net loss		\$ (5,691,680)	\$ (8,192,735)
Depreciation and amortization	8,9,10	551,464	720,149
Accretion		249,867	1,119,301
Share-based compensation	20	2,004,996	807,484
Gain on fair value of derivative liability	16	(56,785)	(38,809)
Recognition of deferred revenue	12	(311,950)	(324,221)
Expected credit losses	5	83,433	203,151
Gain on sale of capital assets		(2,153)	(5,001)
Loss from sale of Sativa Nativa S.A.S.	26	-	1,530,994
Changes in operating elements of working capital	24	2,628,844	(2,387,060)
Cash used in operating activities		(543,964)	(6,566,747)
Cash flows from investing activities			
Sale of long-term investments	11	-	180,000
Purchase of intangible assets	9	(474,728)	(17,611)
Purchase of capital assets	10	(44,533)	(30,504)
Acquisition of MyMedi	4	(2,552,669)	-
Disposals of capital assets		31,260	15,301
Net proceeds from sale of Sativa Nativa S.A.S.		-	669,446
Cash provided by investing activities		(3,040,670)	817,082
Cash flows from financing activities			
Payment of lease liability	13	(112,687)	(168,712)
Proceeds of loans payable, net of issuance costs	15	1,431,000	(1,063,254)
Repayment of loan payable	15	(821,601)	(1,063,254)
Issuance of convertible debentures, net of issuance costs	14	-	1,473,237
Repayment of debentures	14	(762,000)	-
Proceeds from issuance of common shares, net of issuance costs	20	1,226,392	6,702,195
Increase in balance due to related parties	18	571,676	613,206
Proceeds from exercise of warrants		1,154,321	-
Cash provided by financing activities		2,687,101	7,556,672
Net increase (decrease) in cash		(897,533)	1,807,007
Effect of foreign exchange differences		421,780	(1,566,548)
Cash, beginning of period		1,194,040	31,004
Cash, end of period		\$ 718,287	\$ 271,463

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

Avicanna Inc.

Notes to the Condensed consolidated interim financial statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Avicanna Inc. (“Avicanna” or the “Company”) is incorporated in Ontario, Canada. Avicanna is a Canadian commercial-stage biopharmaceutical company focused on research, development, and commercialization of evidence-based cannabinoid products for the global consumer, as well as medical and pharmaceutical market segments.

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

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

As of September 30, 2023, the Company has an accumulated deficit of \$96,137,770 (December 31, 2022 - \$90,829,237), cash of \$718,287 (December 31, 2022 – \$1,194,040), and a working capital deficit of \$6,352,187 (December 31, 2022 – deficit of \$4,340,841). Additionally, the Company incurred a net loss after taxes of \$5,691,680 and used \$543,964 of cash on operating activities during the nine months ended on September 30, 2023. During the nine months ended September 30, 2022, the Company incurred a net loss of \$8,192,735 and gained \$6,566,747 in cash on operating activities during the same period. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2022.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Company’s Board of Directors on November 13, 2023.

Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets and derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. 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 condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency of each subsidiary is presented in the table below.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(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 condensed consolidated interim 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 24).

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

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

The following are the critical judgments 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 Condensed consolidated interim financial statements:

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(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 Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(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 condensed consolidated interim financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Leases

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

Income tax provisions

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the 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 volatility, the expected life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of share prices of similar companies over the period of the expected life of the applicable warrants and stock options. The expected life is based on historical data. These estimates may not necessarily be indicative of future actual patterns.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent audited consolidated financial statements for the year ended December 31, 2022.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

4. ACQUISITION OF MEDICAL CANNABIS BY SHOPPERS

On May 25, 2023 (the “Inventory Purchase Closing Date”), the Company entered into an Asset Purchase Agreement (“Agreement”) to acquire the assets of Medical Cannabis by Shoppers Drug Mart Inc. (the “Vendor”).

On the Inventory Purchase Closing Date, the Company acquired all of the Vendor’s inventory for cash consideration of \$2,552,669, \$2,230,983 to be paid in five equal monthly payments beginning one month after the Final Closing Date and \$321,686 representing the value of open inventory purchase orders, payable 55 days after the inventory is received. The rights to all inventory, and as such all sales revenue, were therefore granted to the Company as of the Inventory Purchase Closing Date. Under the Agreement, the Vendor was obligated to complete the sale of the of the remaining purchased assets on the Final Closing Date once the Company satisfied defined conditions set out in the Agreement. The remaining purchased assets include, but are not limited to, the patient list and capital assets related to the business. The Final Closing Date was July 31, 2023, and could be extended to a maximum of two additional months if conditions had not been met. Prior to the Final Closing Date, the Company satisfied all conditions required and successfully closed the transaction on July 31, 2023.

The purchase price of the assets was (i) cash consideration of \$2,552,669, as disclosed above and (ii) an Earn-Out payment of 15% of net revenue from the acquired customers, for a period of one year following the closing date and 10% of net revenue for a period of one year following the first anniversary of the closing date. Net revenue is defined in the acquisition agreement as revenue less discounts, cost of goods sold, shipping and clinic education fees. The transaction constitutes a business acquisition in accordance with the definition under IFRS 3 and has accounted for it in accordance with this standard. Since the acquisition date, the acquired business has added \$3,695,547 to the Company’s revenue and \$259,999 to the Company’s net loss before taxes.

The Company has relaunched this online e-commerce platform on August 2, 2023, rebranded as MyMedi.ca.

The following table sets forth the preliminary allocation of the purchase price to the net identifiable assets acquired, based on estimates of fair value:

Consideration		
Cash	\$	2,552,669
Contingent consideration – Royalty liability (Note 17)		1,165,000
	\$	3,717,669
Net Assets Acquired		
Inventory		2,552,669
Property and equipment		36,490
Intangible assets – Customer list		1,128,510
	\$	3,717,669

The fair value of the intangible asset acquired has been determined using valuation techniques that require estimation of future earnings, future net cash flows, and discount rates. Changes in estimates and assumptions used could have a material impact on the value of this asset and the amount of amortization expense recognized in future periods.

5. AMOUNTS RECEIVABLE

		September 30, 2023		December 31, 2022
Trade and other receivables	\$	3,806,871	\$	2,121,619
Sales tax receivable		789,573		783,634
Expected credit loss provision		(406,708)		(755,882)
Total amounts receivable	\$	4,189,736	\$	2,149,371

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

6. BIOLOGICAL ASSETS

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

	September 30, 2023		December 31, 2022	
Opening balance	\$	129,824	\$	1,083,448
Production costs capitalized		457,174		428,775
Gain in fair value less costs to sell due to biological transformation		(14,033)		1,535,123
Transferred to inventory upon harvest		(574,902)		(2,798,963)
Foreign exchange translation		24,203		(118,559)
Ending balance	\$	22,266	\$	129,824

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 Isolate	As of September 30, 2023		As of December 31, 2022	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Isolate Yield	4.4%	(\$10,531)	4.3%	(\$6,915)
CBD Isolate Price (USD/KG)	1476	(\$10,591)	\$1,615	(\$7,192)
Weighted average of expected loss of plants until harvest [i]	18.0%	\$427	0.0%	\$856
Expected yields for cannabis plants (average grams per plant)	184	\$1,853	151	\$3,600
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	28%	\$1,853	34.0%	\$3,600
Estimated fair value less costs to complete and sell (per gram) [ii]	(\$0.09)	\$1,350	(\$0.03)	\$2,061
After harvest cost to complete and sell (per gram)	\$0.02	\$502	\$0.05	\$1,539

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

6. BIOLOGICAL ASSETS (CONTINUED)

Assumptions: THC Resin	As of September 30, 2023		As of December 31, 2022	
	Input	Effect on Fair Value	Input	Effect on Fair Value
THC Resin Yield	-	-	12.9%	\$31,051
THC Resin Price (USD/KG)	-	-	\$5,189	\$246,876
Weighted average of expected loss of plants until harvest [i]	-	-	10.0%	\$15,717
Expected yields for cannabis plants (average grams per plant)	-	-	151	\$30,853
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	56.0%	\$3,608
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	\$0.95	\$31,051
After harvest cost to complete and sell (per gram)	-	-	\$0.01	\$17,032

[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 September 30, 2023, it is expected that the Company's cannabis plants biological assets will yield approximately 534,813 grams of dry cannabis (December 31, 2022 – 2,378,005 grams) and 5,500 seeds (December 31, 2022 – nil 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 loss on biological assets of \$347,261 and \$13,046 was included in costs of goods sold for the three and nine months ended September 30, 2023, respectively (September 30, 2022 – gain of \$145,573 and \$1,709,772 respectively).

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

7. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
Harvested Cannabis				
Seeds	\$ 378,810	\$ -	\$ (378,810)	\$ -
Wet Flower	94,301	-	-	94,301
Dried Flower	401,627	3,231,877	(2,582,693)	1,050,812
	874,738	3,231,877	(2,961,503)	1,145,113
Active Pharmaceutical Ingredients				
Work in process	919,431	593,158	(545,424)	967,165
Finished goods	6,775	(33,836)	27,061	-
	926,206	559,322	(518,364)	967,165
Supplies and consumables	1,376,573	-	(418,040)	958,533
Finished goods	2,599,177	-	(17,820)	2,581,357
September 30, 2023	\$ 5,776,694	\$ 3,791,199	\$ (3,915,726)	\$ 5,652,167

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

The value of inventory transferred to cost of goods sold during the three and nine months ended September 30, 2023, was \$3,324,453 and \$5,908,526, respectively (September 30, 2022 - \$217,013 and \$1,352,637 respectively). For the three and nine months ended September 30, 2023, the Company recognized inventory recovery of \$354,232 and \$197,389, respectively (September 30, 2022 – impairment of \$178,196 and \$172,802, respectively).

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

8. PROPERTY AND EQUIPMENT

	Equipment \$	Land \$	Construction in Progress \$	Infrastructure and Buildings \$	Total \$
Cost					
December 31, 2022	4,351,599	5,691,073	180,674	1,331,702	11,555,048
Additions	81,023	-	-	-	81,023
Disposals	(29,107)	-	-	-	(29,107)
Foreign exchange translation	678,222	1,060,975	33,683	229,948	2,002,828
September 30, 2023	5,081,737	6,752,048	214,357	1,561,650	13,609,792
Accumulated Depreciation					
December 31, 2022	1,329,710	-	-	207,980	1,537,690
Depreciation	258,463	-	-	60,469	318,932
Foreign exchange translation	128,793	-	-	24,817	153,610
September 30, 2023	1,716,966	-	-	293,266	2,010,232
Net Book Value					
December 31, 2022	3,021,889	5,691,073	180,674	1,123,722	10,017,358
September 30, 2023	3,364,771	6,752,048	214,357	1,268,384	11,599,560

During the three and nine months ended September 30, 2023, the Company recognized depreciation expense on its property and equipment of \$113,947 and \$318,932, respectively (September 30, 2022 - \$128,786 and \$459,282, respectively).

9. INTANGIBLE ASSETS

	Customer Relationships \$	Ecommerce Platform \$	Licenses and Permits \$	Software Licenses \$	Intellectual Property \$	Total \$
Cost						
December 31, 2022	141,327	455,994	38,783	93,535	80,163	809,802
Additions	1,128,510	474,728	-	-	-	1,603,238
Foreign exchange translation	-	-	7,230	17,624	14,758	39,612
September 30, 2023	1,269,837	930,722	46,013	111,159	94,921	2,452,652
Accumulated Amortization						
December 31, 2022	141,327	288,366	38,783	93,535	80,163	642,174
Amortization	47,021	84,582	-	-	-	131,603
Foreign exchange translation	-	892	7,230	17,624	14,758	40,504
September 30, 2023	188,348	373,840	46,013	111,159	94,921	814,281
Net Book Value						
December 31, 2022	-	167,628	-	-	-	167,628
September 30, 2023	1,081,489	556,882	-	-	-	1,638,371

During the three and nine months ended September 30, 2023, the Company recognized amortization on its intangible assets of \$86,003 and \$131,603 respectively (September 30, 2022 - \$39,842 and \$113,673 respectively). Included in additions is the customer list acquired from Medical Cannabis by Shoppers Drug Mart with a fair value of \$1,128,510 (note 4) and \$474,728 in capitalized costs to develop and launch the MyMedi.ca e-commerce platform. Both assets were put into use on August 2, 2023.

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

10. RIGHT OF USE ASSETS

As of September 30, 2023, and December 31, 2022, the Company's right of use assets consisted of the following:

	September 30, 2023		December 31, 2022	
Cost				
Opening balance	\$	392,297	\$	670,549
Lease expiration		-		(670,549)
Additions		-		392,297
Ending balance	\$	392,297	\$	392,297
Accumulated Amortization				
Opening balance	\$	22,470	\$	523,357
Lease expiration		-		(670,549)
Depreciation		100,929		169,662
Ending balance	\$	123,399	\$	22,470
Net Book Value	\$	268,898	\$	369,827

During the three and nine months ended September 30, 2023, the Company recognized depreciation on its right of use assets of \$33,889 and \$100,929, respectively (September 30, 2022 - \$49,065 and \$147,194, respectively).

11. LONG-TERM INVESTMENTS

	September 30, 2023		December 31, 2022	
Balance at the beginning of the year	\$	-	\$	180,000
Disposition of long-term investment		-		(180,000)
Ending balance	\$	-	\$	-

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 three and nine months ended September 30, 2023, the Company recognized a loss of \$nil (September 30, 2022 - \$nil) and an unrealized loss of \$nil (September 30, 2022 - \$nil).

12. DEFERRED REVENUE

	September 30, 2023		December 31, 2022	
Opening balance	\$	2,353,897	\$	2,782,101
Additions		-		677,916
Revenue recognized		(311,950)		(1,106,120)
Ending Balance	\$	2,041,947	\$	2,353,897

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

12. DEFERRED REVENUE (CONTINUED)

- [i] 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. Pursuant to the terms of the License Agreement, 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 \$94,500 and \$283,500 as license revenue for the three and nine months ended September 30, 2023, respectively (September 30, 2022 - \$94,500 and \$283,500, respectively).
- [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 Company recognized \$nil into License Revenue for the three and nine months ended September 30, 2023 (September 30, 2022 - \$202,083 and \$214,584, respectively).
- [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 \$6,298 and \$18,893 into License Revenue for the three and nine months ended September 30, 2023, respectively (September 30, 2022 - \$6,298 and \$10,496, respectively). Subsequent payments are to be recognized into revenue as each milestone has been met.
- [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 \$3,186 and \$9,557 into License Revenue for the three and nine months ended September 30, 2023, respectively (September 30, 2022 - \$3,186 and \$5,309, respectively). Subsequent fees are to be recognized into revenue as each milestone is met.

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

13. LEASE LIABILITY

As of September 30, 2023, and December 31, 2022, the lease liability consisted of the following:

	September 30, 2023		December 31, 2022	
Opening balance	\$	372,122	\$	156,247
Interest incurred on lease liability		18,669		17,330
New leases		-		392,297
Lease payments		(112,687)		(193,752)
Ending balance	\$	278,134	\$	372,122
Lease liability – current portion		150,248		150,248
Lease liability – noncurrent portion		127,886		221,873

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 as of September 30, 2023, was 8% percent (December 31, 2022 – 8%).

The total future minimum rent payable under the Company's lease on September 30, 2023, was as follows:

Due in less than 1 year	\$	150,248
Due between 1 and 3 years		150,248
Total lease payments		300,496
Amounts representing interest over the term of the lease		(22,362)
Present value of minimum lease payments	\$	278,134

14. CONVERTIBLE DEBENTURES

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

	September 30, 2023		December 31, 2022	
Opening balance	\$	1,861,201	\$	-
Additions		1,291,187		1,199,085
Extinguishment		(1,362,000)		-
Converted to common shares		(876,000)		-
Payments		(762,000)		-
Accretion		142,335		662,116
Ending Balance	\$	294,723	\$	1,861,201

(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 matured one year following the closing date. Each debenture was 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 did 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.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

14. CONVERTIBLE DEBENTURES (CONTINUED)

A portion of the proceeds was allocated to the warrants and the conversion option, which was 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.

As a result, the Company recognized the following:

Convertible debenture	\$	1,199,085
Issuance Costs		77,163
Warrants		206,255
Derivative liability (Note 15)		67,897
	\$	1,550,400

On January 28, 2023, the Company entered into agreements with the holders of these to amend the terms of the debentures and warrants issued with the debentures. Debentures bearing an aggregate amount of \$876,000 had 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 had 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 were 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. Debentures with a face value of \$1,062,000 were extinguished, given the extension was granted on the maturity date. A new convertible debenture was recorded accruing interest at 15% per annum. The portion of the face value allocated to the conversion option, which was accounted for as a derivative liability. As a result, the Company recognized the following:

Convertible debenture	\$	1,006,187
Derivative liability (Note 15)		55,813
	\$	1,062,000

In conjunction with these amendments, the exercise price of the common share purchase warrants issued with the loan agreement was amended from \$1.10 per common share to \$0.55 per common share.

On July 28, 2023, Debenture Holders representing \$762,000 of the outstanding principal transferred the balance into a non-convertible term loan (note 15). The Company entered into an agreement with remaining debenture holders, representing \$300,000 of the outstanding principal, to further amend the original terms of the debentures. The maturity date was amended to October 31, 2023, the interest rate was amended to 20% and an extension fee of 5% of the outstanding principal was added.

During the three and nine months ended September 30, 2023, the Company recognized accretion expense of \$18,447 and \$142,335, respectively (September 30, 2022 - \$186,696 and \$451,612, respectively) and interest expense of \$23,008 and \$91,500, respectively (September 30, 2022 - \$nil and \$nil) in relation to these convertible debentures.

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

15. LOANS PAYABLE

	September 30, 2023		December 31, 2022	
Opening balance	\$	976,397	\$	1,505,933
Addition		1,257,964		-
Repayments		(\$821,601)		(1,214,875)
Accretion		\$88,832		738,165
Foreign exchange translation		\$59,614		(52,826)
Ending Balance	\$	\$1,561,206	\$	976,397
Current	\$	\$1,517,935	\$	796,846
Non-current	\$	\$43,271	\$	179,551

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 was 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		(577,060)
	\$	1,122,940

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 was required to 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 did not accrue interest. In conjunction with the extension, the exercise price of the common share purchase warrants issued with the loan agreement was amended from \$1.10 per common share to \$0.55 per common share. As of September 30, 2023, the balance of the loan had been repaid.

During the three and nine months ended September 30, 2023, the Company incurred accretion expense of \$nil and \$60,987, respectively (September 30, 2022 - \$194,159 and \$374,777, respectively) and interest expense of \$nil and \$5,434, respectively (September 30, 2022 - \$12,589 and \$29,022, respectively) in relation to this loan.

Non-Convertible Debentures

On August 2, 2023, the Company issued non-convertible debentures for principal of \$1,455,000, incurring 18% interest for a term of 12 months, with the principal and interest due at the maturity date. The balance was recognized net of the following issuance costs:

Principal	\$	1,455,000
Issuance Costs		(24,000)
Warrants		(173,036)
	\$	1,257,964

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

15. LOANS PAYABLE (CONTINUED)

As part of the term loan agreement, the Company issued 1,455,000 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 \$0.35 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 4.06%, volatility of 86%, expected life of 1.5 years, dividend yield 0% and share price of \$0.31.

During the three and nine months ended September 30, 2023, the Company incurred accretion expense of \$26,251 and \$26,251, respectively (September 30, 2022 - \$nil and \$nil) and interest expense of \$43,650 and \$43,650, respectively (September 30, 2022 - \$nil and \$nil) 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 three and nine months ended September 30, 2023, the Company incurred interest expenses of \$5,656 and \$20,047, respectively (September 30, 2022 - \$21,676 and \$45,157, respectively) in relation to this loan.

16. DERIVATIVE LIABILITIES

	September 30, 2023	December 31, 2022
Opening balance	\$ 972	\$ -
Additions	55,813	67,897
Gain on change in fair value	(56,785)	(66,925)
Ending Balance	\$ -	\$ 972

On January 28, 2022, the Company completed a convertible debenture offering (note 13). As there was more than one conversion price that investors could exercise at, the conversion option did not meet the fixed-for-fixed criteria under IFRS 9, and therefore was 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%, share price of \$0.47 and exercise price of \$0.85 - \$1.20.

On January 28, 2023, the derivative liability was extinguished on the amendment of the debenture agreements (note 14) and replaced with a derivative liability consistent with the amended terms of the unconverted debentures. On the date of amendment, the derivative liability had a fair value of \$55,813 which was determined using a Black-Scholes option pricing model with the following variables: risk-free rate of 3.85%, volatility of 112.53%, expected life of 0.5 years, dividend yield 0%, share price of \$0.41 and exercise price of \$0.85. For the three and nine months ended September 30, 2023, a gain was recognized on the change in fair value of \$nil and \$56,785, respectively (September 30, 2022 - (\$9,676) and \$38,806, respectively).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

17. ROYALTY LIABILITY

		September 30, 2023		December 31, 2022
Opening balance	\$	-	\$	-
Additions		1,165,000		-
Royalty payments		-		-
Ending Balance	\$	1,165,000	\$	-

On July 31, 2023, the Company closed the acquisition of Medical Cannabis by Shoppers Drug Mart (Note 4). As partial consideration for the acquisition, the Company entered into a Royalty Agreement whereby, Shoppers Drug Mart Inc. (the "Vendor") receives an earn-out payment of 15% of net revenue from the acquired customers, for a period of one year following the closing date and 10% of net revenue for a period of one year following the first anniversary of the closing date. Net revenue is defined in the acquisition agreement as revenue less discounts, cost of goods sold, shipping and clinic education fees. Royalty payments are to be paid quarterly beginning on August 1, 2023.

The obligation has been accounted for as a financial liability recorded at amortized cost. The fair value on the acquisition date was determined using a discounted cash flow model which requires estimation of future earnings, future net cash flows, future new customer growth and discount rates. Changes in estimates and assumptions used could have a material impact on the value of this liability.

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 accrued or paid to key management personnel:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Salaries	\$ 157,826	\$ 193,991	\$ 417,732	\$ 377,116
Stock-based compensation	119,536	195,824	678,750	279,594
	\$ 277,362	\$ 389,815	\$ 1,096,482	\$ 656,710

Additionally, as of September 30, 2023, the Company accumulated advances from certain related parties who represent the minority shareholders of SMGH in the amount of \$5,174,602 (December 31, 2022 - \$3,843,196). 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 three-months ended September 30, 2023, \$nil was converted into equity in SMGH (December 31, 2022 - \$nil).

Changes in the balances are disclosed in the following table:

		September 30, 2023		December 31, 2022
Opening Balance	\$	\$3,843,196	\$	3,659,931
Additions		571,676		760,795
Foreign exchange		759,729		(577,530)
Ending Balance	\$	\$5,174,602	\$	3,843,196

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

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 September 30, 2023, the Company had 87,498,157 common shares issued and outstanding (December 31, 2022 – 74,952,800).

- [i] On June 30, 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 June 30, 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 June 30, 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
	\$	2,491,068

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%.

- [ii] 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:

Common shares	\$	1,200,836
Warrants		227,990
	\$	1,428,826

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%.

- [iii] 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.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

19. SHARE CAPITAL (CONTINUED)

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
	\$	2,782,301

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%.

- [iv] 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
	\$	610,288

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%.

- [v] 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.

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
	\$	1,763,597

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%.

- [vi] On March 20, 2023, the Company issued an aggregate of 3,096,230 Units (the “Units”) at a price of \$0.40 per Unit for net proceeds of \$1,226,492, comprised of gross proceeds of \$1,238,492 less issuance costs of \$12,000. 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 \$0.50 until March 20, 2026.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

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	\$	1,019,089
Warrants		204,822
Broker warrants		2,481
	\$	1,226,392

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%.

[vii] On May 26, 2023, the Company issued 2,883,879 common shares on the exercise of an equivalent number of warrants as part of a Warrant Incentive Program (the "Program"). Under the terms of the Program, subscribers holding warrants exercisable at \$0.40 per common share, who choose to exercise their warrants received one-half of a warrant (each whole warrant an "Incentive Warrant"), exercisable at \$0.50 per share until May 26, 2026. As part of the Program, the Company issued 1,441,940 Incentive Warrants with a calculated fair value of \$196,230. The fair value of the Incentive Warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.385, a risk-free interest rate of 3.94%, an expected annualized volatility of 88.50% and expected dividend yield of 0%.

[viii] On September 5, 2023, 1,875 common shares were issued on the exercise of 1,875 common share purchase warrants with an exercise price of \$0.41 per share for gross proceeds of \$769. The fair value of the warrants exercised was \$289.

Warrant Reserve

As of September 30, 2023, the following warrants were outstanding and exercisable:

	Warrants	Weighted average
	#	exercise price
		\$
Outstanding as of December 31, 2021	14,864,615	1.40
Warrants issued	14,295,997	0.15
Warrants expired	(2,612,413)	0.24
Outstanding as of December 31, 2022	26,548,199	0.90
Warrants issued	4,463,805	0.07
Warrants exercised	(2,885,754)	0.04
Warrants expired	(411,360)	0.02
Outstanding as of September 30, 2023	27,714,890	0.82

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

19. SHARE CAPITAL (CONTINUED)

The following table is a summary of the Company's warrants outstanding as of September 30, 2023:

Exercise price range \$	Warrants Outstanding		Weighted average remaining life (years)	Warrants Exercisable	
	Number outstanding #			Weighted average exercise price \$	Number exercisable #
1.75	4,480,000		0.19	0.28	4,480,000
1.20	3,430,967		0.12	0.15	3,430,967
1.10	2,293,511		0.15	0.09	2,293,511
0.55	2,692,574		0.17	0.05	2,692,574
0.50	2,990,055		0.36	0.05	2,990,055
0.41	16,875		0.00	0.00	16,875
0.40	10,355,908		0.95	0.15	10,355,908
0.35	1,455,000		0.19	0.02	1,455,000
	27,714,890		2.13	0.80	27,714,890

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 three months ended September 30,				For the nine months ended September 30,			
	2023		2022		2023		2022	
Stock options	\$	115,854	\$	63,046	\$	185,642	\$	116,663
Restricted Stock Units		390,645		432,955		1,819,355		532,580
	\$	506,499	\$	496,001	\$	2,004,997	\$	649,243

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

20. SHARE BASED PAYMENT RESERVE AND COMPENSATION (CONTINUED)**Employee and non-employee options***[i] Measurement of fair values*

The fair value of share options granted during the three and nine months ended September 30, 2023, and 2022, was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2023	2022
Grant date share price	\$0.30 - \$0.48	-
Exercise price	\$0.38 - \$0.60	-
Expected dividend yield	0%	-
Risk-free interest rate	3.24% - 3.76%	-
Expected option life	2.5 years	-
Expected volatility	99.85% - 102.48%	-

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.

[ii] Options Issued and Outstanding

	Options	Weighted average
	#	exercise price
		\$
Outstanding on December 31, 2021	1,496,489	2.39
Options issued	90,000	0.37
Options cancelled and forfeited	(53,692)	1.78
Outstanding on December 31, 2022	1,532,797	2.29
Options issued	1,400,000	0.35
Options forfeited	(25,000)	0.60
Outstanding on September 30, 2023	2,907,797	1.37

During the three and nine months ended September 30, 2023, the Company recognized a total share-based compensation expense relating to options of \$115,854 and \$185,641, respectively (September 30, 2022 - \$63,640 and \$180,304, respectively).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

20. SHARE BASED PAYMENT RESERVE AND COMPENSATION (CONTINUED)

The following table is a summary of the Company's share options outstanding as of September 30, 2023:

Options Outstanding			Options Exercisable		
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	
\$	#	(years)	\$	#	
0.35	350,000	0.70	0.04	350,000	
0.37	90,000	0.13	0.01	-	
0.38	50,000	0.08	0.01	-	
0.40	375,000	0.44	0.05	250,000	
0.60	600,000	0.88	0.12	-	
1.00	686,666	0.76	0.24	686,666	
1.24	4,167	0.00	0.00	4,167	
1.39	13,000	0.01	0.01	13,000	
2.00	265,000	0.14	0.18	265,000	
2.50	81,002	0.16	0.07	81,002	
2.75	202,867	0.16	0.19	202,867	
5.00	14,595	0.01	0.03	14,595	
7.30	2,000	0.00	0.01	2,000	
8.00	173,500	0.13	0.48	173,500	
	2,907,797	3.60	1.43	2,042,797	

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.

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

	RSUs	Weighted average issue price
	#	\$
Outstanding on December 31, 2021	742,008	2.30
RSUs vested	(2,782,562)	0.52
RSUs issued	3,147,435	0.33
RSUs forfeited and cancelled	(13,000)	1.25
Outstanding on December 31, 2022	1,093,881	1.45
RSUs vested [i]	(4,373,372)	0.42
RSUs forfeited	(35,000)	0.43
RSUs issued [ii]	5,347,972	0.36
Outstanding on September 30, 2023	2,033,481	0.35

[i] During the nine months ended September 30, 2023, 4,373,372 common shares were issued on the vesting of restricted stock units. The grant price of the exercised units ranged from \$0.30 to \$1.25.

[ii] During the nine months ended September 30, 2023, 5,347,972 restricted stock units were issued with a fair value of between \$0.30 - \$0.48 per unit. Of the units issued, 3,912,200 vested immediately and 1,435,772 vest over two years.

During the three and nine months ended September 30, 2023, the Company recognized a total share-based compensation expense relating to restricted stock units of \$390,645 and \$1,819,355, respectively (September 30, 2022 - \$94,601 and \$627,180, respectively).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

21. NON-CONTROLLING INTEREST

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

	September 30, 2023		December 31, 2022	
Opening Balance	\$	3,842,211	\$	5,761,835
Sale of Sativa Nativa S.A.S.		-		247,158
Foreign translation		457,303		(353,261)
Net loss attributed to non-controlling interest		(383,147)		(1,313,521)
Ending Balance	\$	3,916,367	\$	3,842,211

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 September 30, 2023, \$3,806,871 in trade and other receivables remained outstanding (December 31, 2022 – \$2,121,619). 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.

During the three and nine months ended September 30, 2023, the Company has recognized an estimated credit losses of \$66,979 and \$83,433, respectively (September 30, 2022 – \$143,922 and \$203,151, respectively).

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	\$ 9,250,148	\$ 9,250,148	\$ 9,250,148	\$ -	\$ -
Loan payable	1,561,206	1,716,521	1,673,250	43,270	-
Convertible debentures	294,723	315,000	315,000	-	-
Lease liability	278,134	338,057	150,248	150,248	-
	\$ 11,384,211	\$ 11,619,726	\$ 11,388,646	\$ 193,518	\$ -

The due to related party balance of \$5,174,602 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.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 rates as all borrowing have fixed rates of interest which are not affected by these fluctuations. Loan payable, convertible debentures and lease liability are recorded at amortized cost using fixed interest rates.

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. 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 condensed consolidated interim statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy as disclosed in Note 22 to the consolidated financial statements for the year ended December 31, 2022. 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 three and nine months ended September 30, 2023, and the year ended December 31, 2022, there were no level 3 financial instruments.

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Office & General	\$ 1,312,465	\$ 538,158	\$ 2,434,864	\$ 1,520,712
Selling marketing and promotion	625,720	110,692	1,095,697	325,662
Consulting fees	184,775	414,281	669,564	1,121,645
Professional fees	264,606	223,083	806,712	691,402
Salaries and wages	950,624	1,030,452	2,652,346	2,950,186
Research and development	63,957	86,221	207,692	184,339
	\$ 3,402,147	\$ 2,402,887	\$ 7,866,875	\$ 6,793,946

During the three and nine months ended September 30, 2023, as part of its inventory costing process, the Company capitalized \$50,937 and \$168,780, respectively, of salaries to inventory and biological assets (September 30, 2022 – \$38,744 and \$197,743, respectively).

24. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL

	For the three months end September 30,		For the nine months end September 30,	
	2023	2022	2023	2022
Amounts receivable	\$ 126,882	\$ 436,854	\$ (2,123,798)	\$ (251,625)
Biological assets	29,623	342,329	107,558	991,504
Inventory	2,042,183	(62,005)	10,707	(2,264,300)
Prepaid assets	47,629	(106,284)	(137,035)	92,522
Accounts payable	1,101,808	603,585	4,771,412	(95,855)
	\$ 3,348,125	\$ (1,214,479)	\$ 2,628,844	\$ (1,527,754)

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

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

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 September 30, 2023, 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.

	North America	South America	Rest of World	Corporate	Total
Statement of Financial Position					
As of September 30, 2023					
Current assets	\$ 7,242,465	\$ 3,889,664	\$ 68,340	\$ -	\$ 11,200,469
Non-current assets	2,075,054	11,431,775	-	-	13,506,829
Current liabilities	(10,878,796)	(6,621,806)	(52,052)	-	(17,552,656)
Non-current liabilities	(2,169,832)	(43,272)	-	-	(2,213,104)
As of December 31, 2022					
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)
	North America	South America	Rest of World	Corporate	Total
Statement of Operations and Comprehensive Loss					
Nine Months Ended September 30, 2023					
Revenue	\$ 10,422,634	\$ 315,406	\$ -	\$ -	\$ 10,738,040
Gross margin	4,835,102	104,117	-	-	4,939,219
Operating expenses	(5,521,571)	(1,881,684)	(69,742)	(3,033,771)	(10,506,768)
Net loss before tax	(971,287)	(1,617,529)	(69,093)	(3,033,771)	(5,691,680)
Nine Months Ended September 30, 2022					
Revenue	\$ 1,748,716	\$ 1,127,684	\$ 35,381	\$ -	\$ 2,911,781
Gross margin	787,847	2,227,320	24,811	-	3,039,978
Operating expenses	(3,186,683)	(2,195,252)	(75,189)	(1,336,822)	(6,793,946)
Net loss before tax	(4,156,210)	(311,175)	(50,050)	(3,675,300)	(8,192,735)

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

For the Three and Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

26. 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 Condensed consolidated interim 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)
Loss on sale of Sativa Nativa S.A.S.	\$	(1,530,994)

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.